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2010 ANNUAL REPORT

SOUND TRANSIT
RIDE THE WAVE

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GETTING YOU THERE 365 DAYS A YEAR

Photo: Scott Areman Photography

Aaron Reardon
Sound Transit Board Chair
Snohomish County Executive

SERVING CUSTOMERS

It would be easy to think of Sound Transit as a construction agency. For more than a decade, we've been building bus and train stations while also laying miles of track in communities throughout King, Pierce and Snohomish counties.

Similarly, you might call Sound Transit a planning agency. It took years of planning and engineering to realize all the projects and services now in place. There's plenty more in the years ahead as we plan and build light rail across Lake Washington to the Eastside, south of Sea-Tac Airport and north into Snohomish County.

When you boil it all down, though, Sound Transit exists for one reason: our customers.

Sound Transit is here because people need a reliable way to get to work, to school, and all the places during their days. We're here because skyrocketing gas prices give everyone a headache. Because sitting in traffic is no fun. Because not everyone has a car.

Several years ago the people of this region shared that vision and gave Sound Transit the go-ahead and the financial resources to create your regional transit system. From 1999 (when ST Express buses began running) through 2010 (the first full year of Link light rail service between Seattle and SeaTac), we've served more customers each year.

In 2010, Sound Transit buses and trains provided 23 million rides throughout the region, 3.8 million more than the year before.

Thanks to you, the taxpayers who are Sound Transit's real owners, this region is making a solid investment in regional transit. The reasons behind that investment are many – more than 75,000, in fact, for the number of rides on our buses and trains each day in 2010.

Those numbers have faces. They're the faces of our customers and our continued focus.

Photo: Doug Plummer

365 3/3/2010
Afternoon ride on Link light rail from SeaTac/Airport Station

Joni Earl
Sound Transit
Chief Executive Officer

MEETING THE CHALLENGE

The economic recession continues to squeeze the region. Sound Transit feels it, too.

The lingering effects of a struggling economy have translated into people making fewer purchases, resulting in a smaller amount of sales taxes collected. Multiplied over calendar years, the impact packs a wallop: Sound Transit is projected to have $3.9 billion less than planned to deliver the transit expansion projects and services that voters approved back in 2008.

Dealing responsibly and appropriately with that projected revenue shortfall – about 25 percent – was a major focus in 2010. We recognized that we cannot deliver the entire voter-approved plan within 15 years as envisioned. Over many months last year, our Board and staff worked to develop a program realignment plan that the Board approved December 2010.

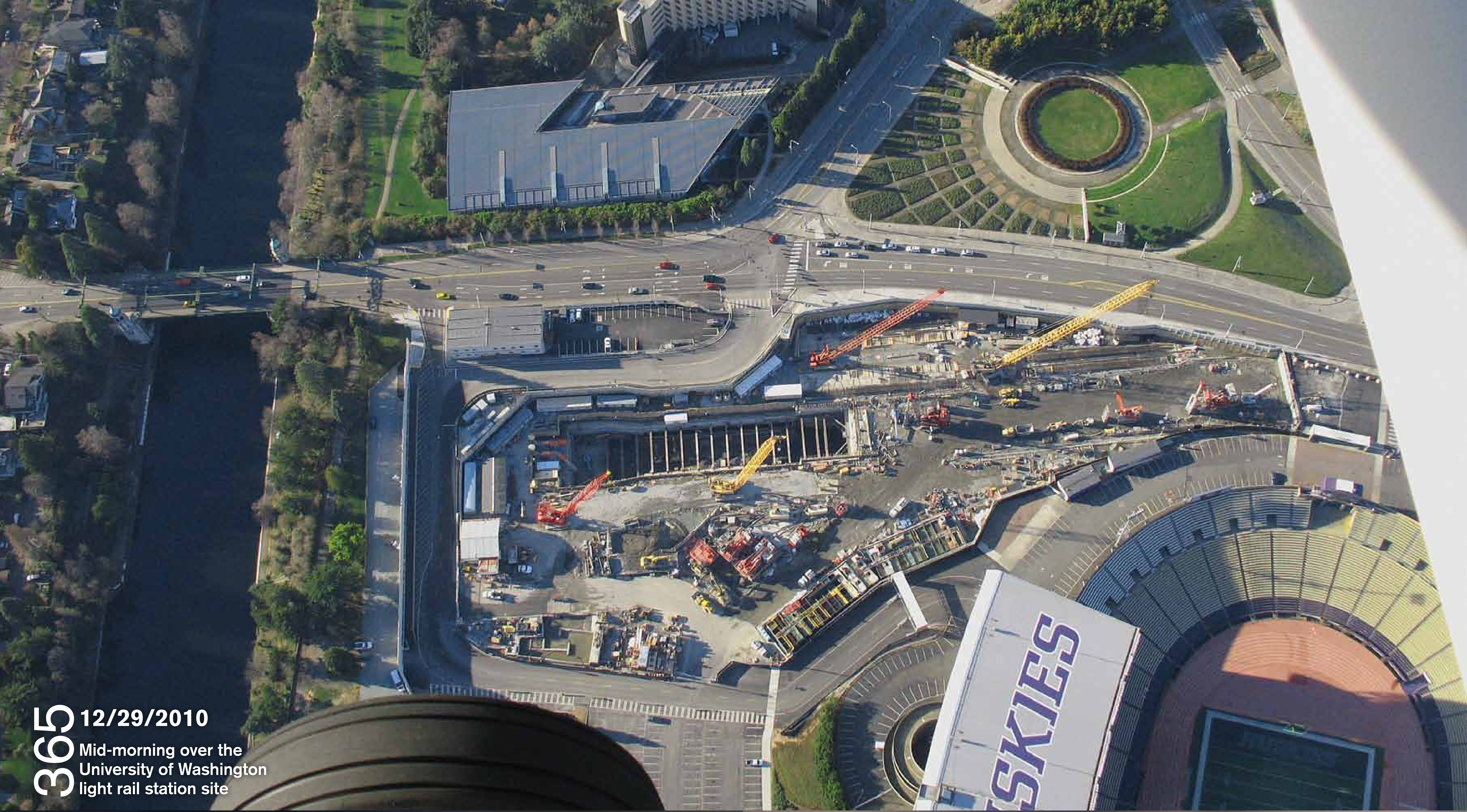
What evolved was a robust plan that includes moving ahead with the substantial majority of voter-approved projects, including extensions to light rail. The plan recommends limited funding or suspended activity on a few projects, but does not eliminate any projects.

Sound Transit tightened its belt in other ways as well. We made tough financial choices, reducing project reserves and eliminating discretionary programs. We cut service on bus routes with low ridership, adding service on others to reallocate scarce resources where they have more impact.

We'll weather this storm, as we have weathered other storms in the past. This region is in it for the long haul.

The investment of public tax dollars in Sound Transit is a profound responsibility that we take seriously. It's your money, and it's our focus.

Joni Earl



365
12/29/2010
Mid-morning over the University of Washington light rail station site

2010 MILESTONES

Q1
Newcastle Transit Improvements completed

Q1
New Sounder maintenance agreement signed with Amtrak

Q2
Capitol Hill Station to Pine Street Stub tunnel contractor mobilizes and begins major work

Q2
UW to Capitol Hill Station tunnel contractor mobilizes and begins major work

Q2
Groundbreaking for SR 522 enhancements in Bothell

Q2
Contract finalized for North Corridor Transit project

Q2
Sound Transit Board identifies a downtown Bellevue preferred Link alignment

365 12/16/2010
The D-to-M Streets project continues in Tacoma

BUILDING FOR TOMORROW

Building for the future continued to be a major focus in 2010. With projects under construction throughout the region, Sound Transit is a major player in the regional economy.

Link light rail
We made significant progress toward bringing light rail service to the University of Washington beginning in 2016. Work was particularly visible around the UW Station and Capitol Hill Station sites. Workers completed construction of the section crossing under Interstate 5, and the first of the new light rail cars was delivered for assembly.

We also finished up yard expansion at the light rail operations and maintenance facility.

Sounder commuter rail
We completed track and signal improvements between Tacoma's M Street and Lakewood, and began construction of new tracks and signals between Tacoma's D and M streets; both are needed to extend Sounder service to South Tacoma and Lakewood beginning in 2012.

We also broke ground on Edmonds Station improvements, and completed a new layover track for trains at Everett Station.

ST Express buses
With Washington State Department of Transportation, we broke ground in April on two-way transit lanes on Interstate 90 between Bellevue and Seattle. This will improve express bus reliability in the near term and make way for future light rail service to the Eastside.

2010 MILESTONES

Q3 Agency clean financial audit

Q3 I-90 Project Stage 2 breaks ground

Q3 North Link final design begins

Q3 Contract awarded for Sounder station access and demand study

Q3 U-Link I-5 Undercrossing contract substantially completed

Q3 Edmonds Sounder station improvements break ground

Q4 Sounder D-to-M Streets track and signal project breaks ground

365 **11/30/2010**
A Tuesday evening in Bellevue discussing East Link light rail

PLANNING AHEAD

As we plan to build and operate new voter-approved regional transit services throughout the region, we're focused on working smart. Throughout the region, in 2010 Sound Transit forwarded its vision for tomorrow. Some highlights:

- Final design began on the extension of Link light rail from the University of Washington to Northgate.
- Following extensive public outreach and work with affected communities, the Sound Transit Board identified preferred alternatives for light rail service between Seattle and the Eastside.
- Planning proceeded for extending mass transit from Northgate to Lynnwood.
- We reached agreement with BNSF Railway Company to add four more Sounder trips between Seattle and Tacoma in the future.

2010 MILESTONES

Q4
Layover track at Everett Sounder station completed

Q4
40 new buses delivered for ST2 service expansion

Q4
First of 27 University Link cars delivered

Q4
Yard expansion at the Link light rail Operations and Maintenance Facility completed

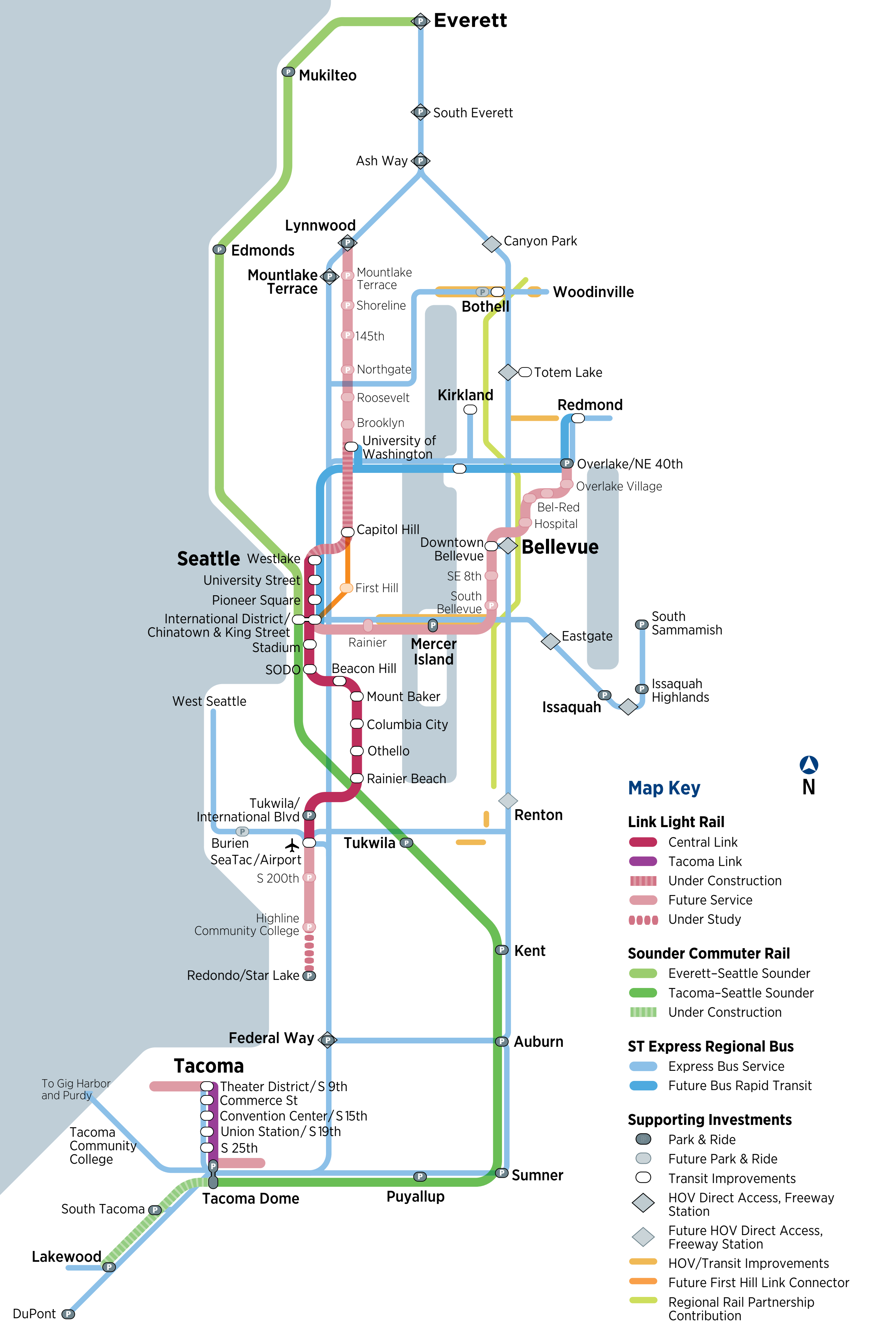
Q4
M Street to Lakewood track and signal construction improvements completed

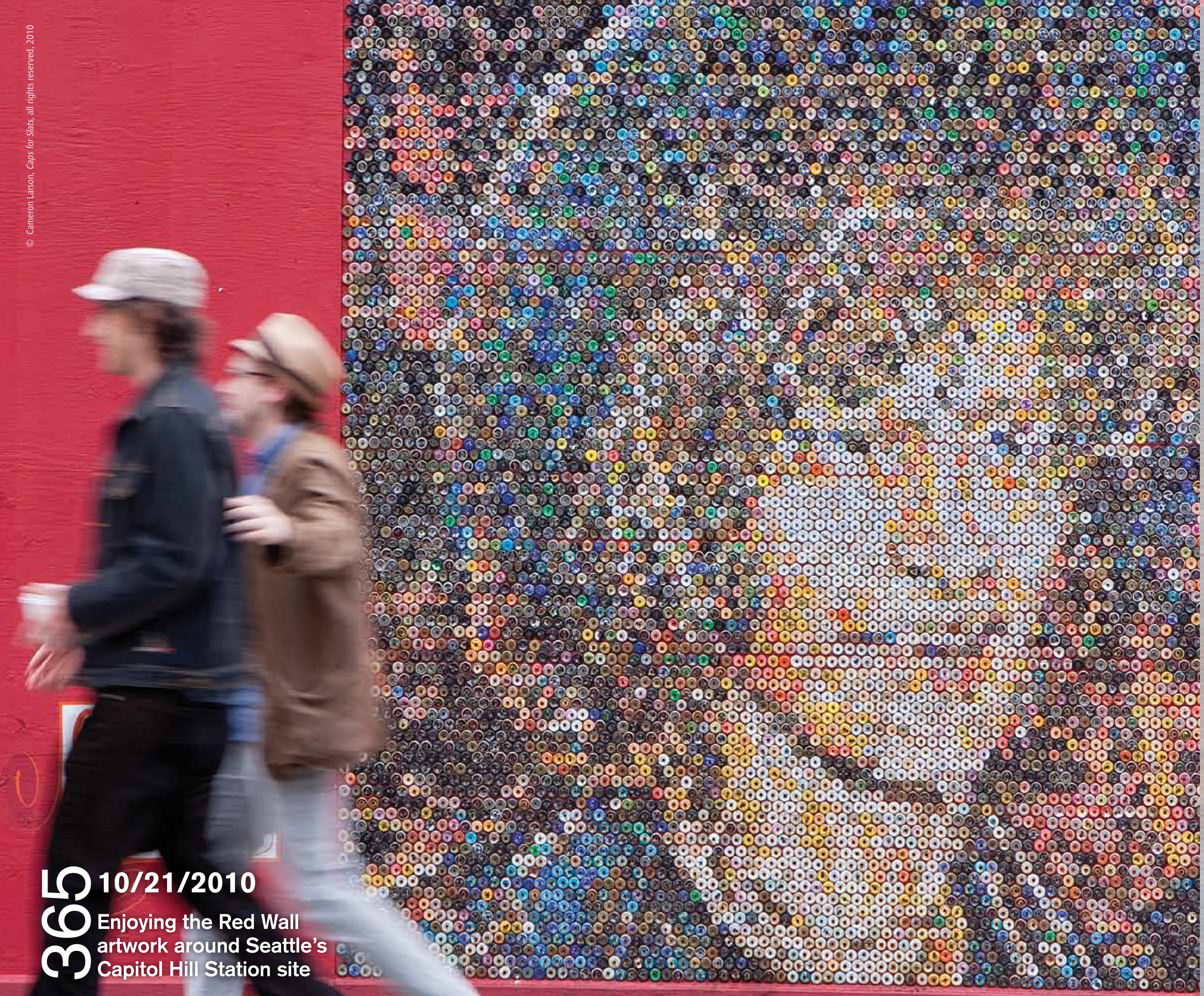
Q4
UW Link light rail station finishes contract awarded

Q4
Agreement executed for four additional Sounder round trips between Tacoma and Seattle

Sound Transit current services and future projects

Sound Transit's voter-approved regional transit system includes 55 miles of light rail, 75 miles of Sounder commuter rail and 25 regional bus routes. Sound Transit carries more than 23 million passengers a year throughout its 1000-square-mile district.





365 **10/21/2010**

Enjoying the Red Wall artwork around Seattle's Capitol Hill Station site

DOING GOOD BUSINESS

Sound Transit is a major regional employer, with a $921 million annual budget in 2010 and projects that employ thousands of workers in three counties. We're focused on doing business in a way that reflects our community's shared values and priorities. Some 2010 examples demonstrate commitments to sustainability and accountability:

- Fuel consumption of agency fleet vehicles was reduced by five percent.
- Solar-powered security cameras at stations were tested and found feasible for wider implementation.
- Funding for Sound Transit's public art program was retained.
- A clean financial audit capped a years-long string of independent verification of sound financial practices.
- Sound Transit purchased 11 hybrid buses.
- Up to 251,182 tons of CO2 were averted by people using Sound Transit services.

2010 MILESTONES

Q4
Sound Transit 2 art program policy finalized

Q4
Environmental restoration mitigation projects completed for Sounder north corridor

Q4
Fuel consumption in agency fleet reduced by 5 percent

Q4
Solar power pilot project pursued for new or existing facility

Q4
Bicycle parking at stations increases by 150 spaces

Marking Milestones Each year Sound Transit publicly sets goals and subsequently reports on progress as a way for the public to track our accomplishments. In 2010, 26 of 35 milestones were reached for a completion rate of 74 percent. Most of those missed milestones are taking place in 2011.

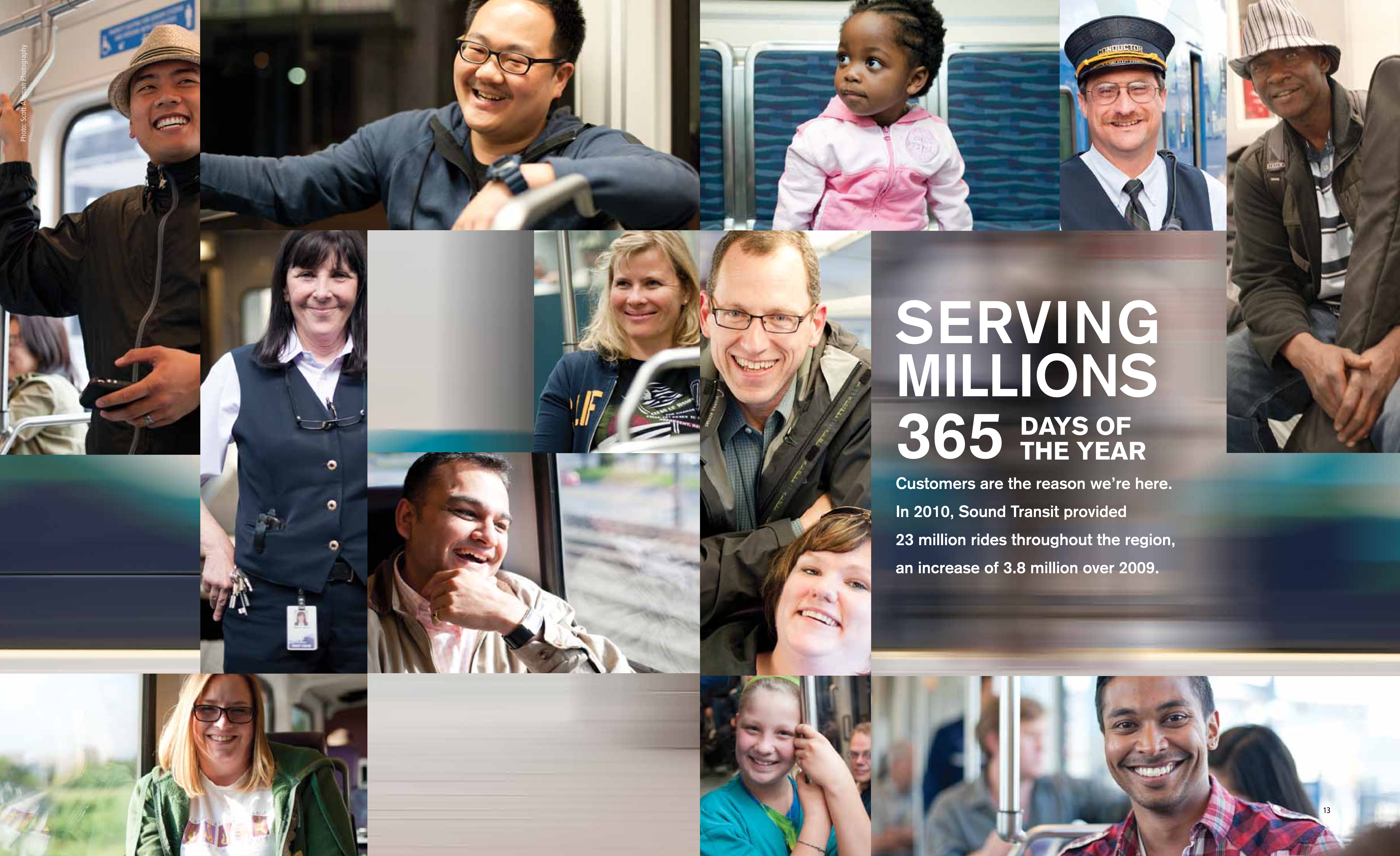


Photo: Scott Areman Photography

SERVING MILLIONS

365 DAYS OF THE YEAR

Customers are the reason we're here. In 2010, Sound Transit provided 23 million rides throughout the region, an increase of 3.8 million over 2009.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) have been prepared from its accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and judgments, are the responsibility of management.

Sound Transit maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes management's responsibility to objectively assess the effectiveness of internal accounting controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls in which the cost of the system being implemented should not exceed the benefits derived. Sound Transit believes that the organization's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent auditors, whose report is included herein, were engaged to express an opinion on our 2010 financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Board of Directors.

Joni Earl	Brian McCartan	Kelly A. Priestley
Chief Executive Officer	*Chief Financial Officer*	*Controller*

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FINANCIALS

FINANCIAL AND OPERATING HIGHLIGHTS

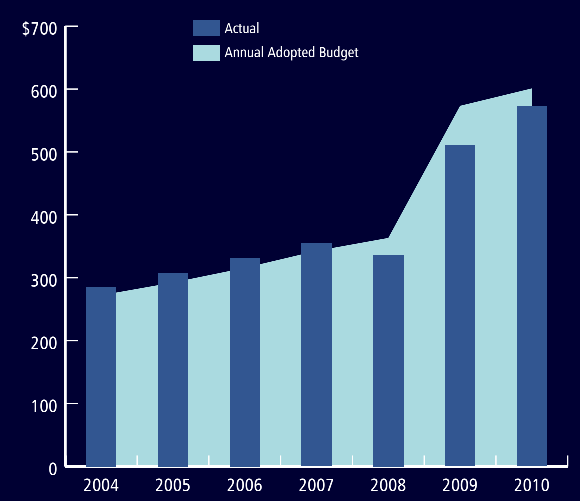
Sound Transit continued to expand its service and implement the "ST2" capital program in 2010. Total Sound Transit ridership increased 19.2% from 2009 as Central Link light rail completed its first year of revenue service in 2010, serving 7.0 million passengers. In 2010, Sounder ridership was comparable to 2009 while ST Express ridership declined by 5.0% as the economic recession has reduced incentives to use public transit due to decreases in traffic congestion and lower fuel costs. 2010 Tacoma Link ridership was comparable to 2009.

Overall tax revenues continued to increase in 2010 as a result of receiving a full year of the additional 0.5% Sales and Use Tax which became effective April 1, 2009. This tax increase was approved by voters in November 2008 as part of the Sound Transit 2 Plan to expand regional transit services by 2023. Without the increase in the tax rate, Sales Tax revenues would be down 1.5% from 2009 as a result of the continuing economic recession.

Capital program spending increased $122.8 million primarily as a result of the ramp up of University Link with the start of construction on the 3.1 mile twin bored tunnel to the University of Washington and Capital Hill stations in 2010. Sounder capital spending was $88.1 million primarily related to the purchase of an additional Seattle to Tacoma easement from BNSF and the completion of the Tacoma-Lakewood track and signal project. ST Express incurred $26.6 million of capital spending as construction at Mountlake Terrace Freeway Station and Kirkland Transit Center progressed on schedule.

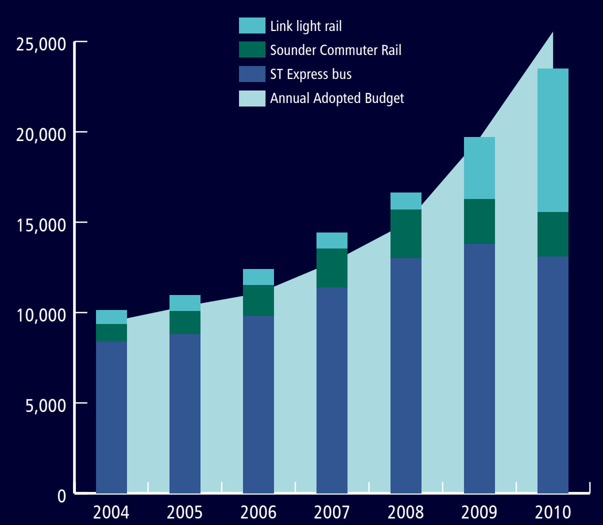
Tax Revenue Collection History

(Unaudited) ($ in millions)



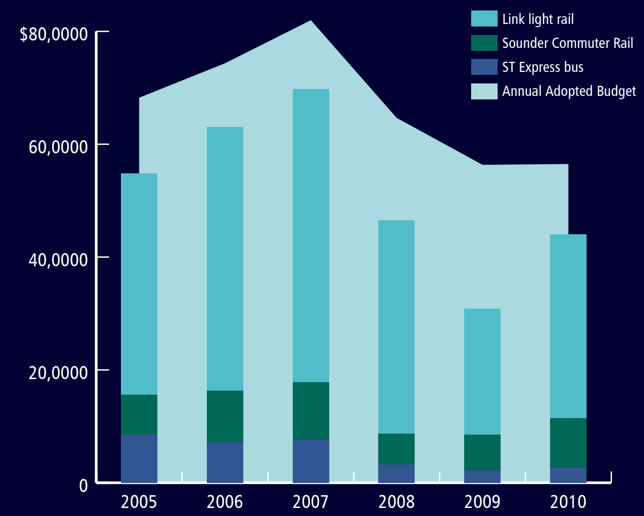
Ridership

(Number of boardings/Unaudited) (in thousands)



Capital Expenditures by Line of Business

(Unaudited) ($ in thousands)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended December 31, 2010 and 2009

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of Sound Transit for the years ended December 31, 2010 and 2009. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements and notes as a whole.

Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, is a regional transit authority implementing and providing a high capacity transportation system throughout parts of King, Pierce and Snohomish counties through commuter rail (Sounder), light rail (Link) and a regional express bus system (ST Express). The implementation of the initial phase of the voter approved regional mass transit system "Sound Move" is scheduled for completion in 2016. The second phase "ST2", approved by the voters in November 2008, which authorized a 0.5% Sales and Use Tax increase, expands the transit system throughout the region, and is scheduled for a 2023 completion. As individual transit system elements are completed, service will expand.

Sound Transit's financial statements have reflected a growth in operating revenues and expenses each year, as well as growth in capital assets. In 2010, revenues reflect a further growth from 2009 levels as a result of collecting the increased Sales and Use Tax rate authorized by the voters in the ST2 plan for a full year. Operating expenditures have increased significantly due to a full year of light rail service operating between Westlake Station in Seattle to Sea-Tac International Airport. Major sources of non-operating revenue continue to exceed expenses providing an increase in net assets as Sound Transit continues to build out the voter-approved capital program.

FINANCIAL HIGHLIGHTS

- Total operating revenues were $40.1 million for 2010, an increase of 22.9% from the prior year. Passenger fares increased by $8.6 million from the prior year with the first full year in 2010 of light rail service, as compared to six months of revenue operations for Central Link and one month of revenue operations for Airport Link in 2009.
- Loss from operations was $279.9 million for 2010, an increase of 23.9% from the prior year.
  - Overall operations and maintenance expenses increased by 10.0%, with vehicle operations expenses up $9.3 million or 9.5% reflecting a full year of operating Central and Airport Link light rail service. Non-vehicle maintenance expenses increased by $5.7 million or 29.7% and included the full year impact of an increased share of Downtown Seattle Transit Tunnel costs, an expanded ticket vending machine network to support light rail service and facility maintenance in support of light rail operations.
  - General and administrative expenses, increased by 38.9%, an increase of $9.6 million, primarily due to higher professional fees incurred in support of construction claim resolution and changes in the Owner Controlled Insurance Program claim provision.
- Non-operating revenues, net of expenses were $536.7 million, a 3.5% increase from prior year. Tax revenues increased by $61.2 million or 12.0%, due to the impact of collecting the 0.5% increase in the Sales and Use Tax levy from ST2 for a full year in 2010. In 2009, the increased tax rate was collected effective April 1. Offsetting higher tax revenues, interest expense increased $52.6 million. Actual costs incurred for interest increased by $13.9 million with the issuance of additional bonds in September 2009. More significantly, less interest costs were capitalized to capital projects as construction activity for University Link ramps up and the Central and Airport Link projects completed in 2009.
- Federal, state and local contributions to Sound Transit were $163.8 million, a decrease of 7.1% from the prior year as lower contributions were received in 2010 from Washington State Department of Transportation. Projects transferred to other governments of $7.7 million, decreased by 69.8% from the prior year as Sound Transit has substantially completed its Sound Move construction program.
- Total net assets at December 31, 2010 were $4.0 billion, an increase of $412.9 million or 11.4% from 2009. This change was down from 2009, during which net assets increased by $443.4 million or 14.0% from 2008 levels. This decrease reflects the increase in loss from operations associated with operating Central and Airport Link light rail service for a full year.

- Total capital assets, net of accumulated depreciation and amortization, were $4.6 billion at December 31, 2010, an increase of $409.8 million or 9.8% from 2009. The increase in total capital assets is mostly attributable to the progress on the University Link project. In 2010, $191.4 million in expenditures related to completed projects or land acquisitions were transferred to land, permanent easements, transit facilities, vehicles and equipment.

OVERVIEW OF THE FINANCIAL STATEMENTS

Sound Transit's financial statements are prepared in conformity with United States Generally Accepted Accounting Principles (GAAP). The 2010 and 2009 financial statements are presented using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets, and depreciation and amortization of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

The financial statements provide both long term and short term information about Sound Transit's overall financial status as well as Sound Transit's net assets, segregated by invested in capital assets (net of related debt), restricted and unrestricted. Net assets are the difference between Sound Transit's assets and liabilities and over time may serve as a useful indicator of Sound Transit's financial position. The financial statements also include notes that provide additional information that is essential to a full understanding of the information provided.

FINANCIAL ANALYSIS

Net Assets

Sound Transit's total net assets at December 31, 2010 were $4.0 billion, an increase of $412.9 million or 11.4% from 2009. Total assets increased $452.6 million or 8.3% and total liabilities increased by $39.7 million or 2.2%. The large increase in total assets reflects capital program spending, most significantly the University Link light rail projects and the acquisition of an additional Sounder easement in the South corridor. See the table below for a summary of Sound Transit's net asset position.

Sound Transit Net Assets

	December 31			% Change	
(in millions)	2010	2009	2008	2010-2009	2009-2008
Current assets, excluding restricted assets	$ 1,090.6	$ 918.8	$ 526.0	18.7%	74.7%
Restricted assets	109.3	239.7	124.0	(54.4)	93.4
Capital assets	4,610.5	4,200.7	3,917.4	9.8	7.2
Other non-current assets	93.4	92.0	77.1	1.5	19.4
Total Assets	**5,903.8**	**5,451.2**	**4,644.5**	**8.3**	**17.4**
Current liabilities, excluding interest payable from restricted assets	228.4	167.4	174.6	36.4	(4.1)
Interest payable from restricted assets	18.2	19.0	14.0	(4.3)	36.1
Long-term debt	1,550.5	1,571.3	1,204.1	(1.3)	30.5
Other long-term liabilties	72.4	72.1	73.8	0.4	(2.3)
Total Liabilities	**1,869.5**	**1,829.8**	**1,466.5**	**2.2**	**24.8**
Net Assets					
Invested in capital assets, net of related debt	3,051.5	2,775.5	2,693.3	9.9	2.8
Restricted net assets	91.1	78.3	110.0	16.4	(28.9)
Unrestricted net assets	891.7	767.6	374.7	16.2	109.4
Total Net Assets	**$ 4,034.3**	**$ 3,621.4**	**$ 3,178.0**	**11.4%**	**14.0%**

Current assets, excluding restricted assets, increased in 2010 by 18.7% from 2009. Cash received from revenues exceeded current year capital and operating expenditures for the year, allowing Sound Transit to increase its investment balances in 2010. Current assets, excluding restricted assets, increased in 2009 by 74.7% from 2008 as cash and cash equivalent balance on hand increased with the receipt of bond proceeds in late 2009 reimbursing previous capital project spending.

In 2010, restricted assets decreased by 54.4% from 2009 as cash that was restricted from the 2009 bond issuance was fully spent down. Restricted assets increased in 2009 by 93.4% from 2008 due to additional cash being restricted as a result of the 2009 bond issuance.

Capital assets increased in 2010 by 9.8% from 2009 as a result of construction spending on University Link, the acquisition of a permanent easement from BSNF and the purchase of twenty-seven new buses. In 2009, capital assets increased 7.2% over 2008 due to costs incurred on Central and Airport Link, Tacoma-Lakewood Track & Signal projects, Mountlake Terrace Freeway Station and Totem Lake Evergreen Hospital projects.

Total capital project spending for the year was $520.6 million. University Link represented the largest capital spending component comprising 49.7% of spending on capital projects. In all, total capital spending for light rail was $339.2 million or 65.5% of the total capital spending ($276.8 million or 69.8% in 2009). Capital spending on Sounder and ST Express projects as a percentage of total capital spending was 18.9% and 5.6%, respectively (16.5% and 5.8% in 2009). Transfers out of capital projects in progress were $201.1 million ($2.4 billion in 2009) as projects were completed and transferred to property, transit facilities, vehicles and equipment or expensed as indicated in the following table:

(in millions)	2010	2009	2008
Transferred to property, vehicles, transit facilities and equipment	$ 191.5	$2,387.9	$ 168.8
Expensed to contributions to other governments	7.7	25.5	67.6
Transferred to prepaid expenses, inventory and non-capitalized expenditures	0.1	0.5	0.7
Link start-up expenditures	-	12.8	5.4
Write-off of overhead, discontinued and impaired project costs and loss on disposal of assets	1.8	11.2	4.8
	$ 201.1	**$2,437.9**	**$ 247.3**

In 2010, $1.8 million of costs were written off to general and administrative expenses of which $0.9 million of capital costs related to excess overhead on the Sounder Layover and Tukwila Station projects that have experienced construction delays and $0.9 million on University Link for third-party project design changes related to the State's 520 Bridge project. Those design changes eliminated the plan for a pedestrian bridge crossing in Montlake Triangle, replacing it with a land bridge. In 2009, $11.2 million of costs were written off of which $5.4 million related to the write-off of excess overhead to general and administrative expense from the Tacoma-Lakewood, Edmonds Station and Mukilteo South projects that experienced delays in construction, and $5.8 million related to the Renton HOV Access/N 8th Avenue project that was to be built in partnership with WSDOT; however WSDOT funding available to complete the project was no longer anticipated.

Direct additions to property, vehicles or equipment in 2010 were $0.6 million ($1.1 million in 2009) and consisted primarily of technology investments. Depreciation and amortization expense increased in 2010 and 2009 to $104.3 million and $65.8 million, respectively. In 2010, $2.4 million was transferred from inventory to land related to property that is no longer going to be sold to the City of SeaTac as Sound Transit intends to use it for the South Link project. In 2009, Sound Transit did not transfer property between land and inventory. There were no significant disposals in 2010 or 2009.

Current liabilities, in 2010, excluding interest payable from restricted assets, increased by 36.4% as higher amounts were payable at year-end with the increase in construction activity in 2010 from 2009. Interest payable at year-end decreased 4.3% and long-term debt decreased 1.3% reflecting principal payments made on the 1999 and 2007A bonds in 2010. In 2009, current liabilities, excluding interest payable from restricted assets, decreased by 4.1% as lower amounts were payable at year-end as construction activity was lower in 2009. In 2009 interest payable increased 36.1% and long-term debt increased 30.5% with the 2009 bond issue.

The following table presents the net asset components and their relative percentage to total net assets:

Net Assets

	As of December 31			% Total Net Assets		
(in millions)	2010	2009	2008	2010	2009	2008
Invested in capital assets, net of related debt	$ 3,051.5	$ 2,775.5	$ 2,693.3	75.6%	76.6%	84.7%
Restricted net assets	91.1	78.3	110.0	2.3	2.2	3.5
Unrestricted net assets	891.7	767.6	374.7	22.1	21.2	11.8
Total Net Assets	**$ 4,034.3**	**$ 3,621.4**	**$ 3,178.0**	**100.0%**	**100.0%**	**100.0%**

Sound Transit's net assets represent the cumulative effect of the excess of revenues over expenses together with the impact of Sound Transit's financing decisions. Invested in capital assets reflects investment in property, net of related debt, construction in progress and depreciable net assets used in its operations, while restricted net assets are assets restricted by a third party for use by the agency for a specific purpose and unrestricted net assets are the remainder of net assets not invested in capital nor restricted for a specific purpose. Net asset categories for 2010 as a percentage of total net assets were comparable to the prior year. In 2009, with the increase in Sound Transit's Sales and Use Tax base and issuance of bonds, unrestricted net assets increased by 9.4%, as a percentage of total net assets, and invested in capital assets decreased by 8.1%.

CHANGES IN NET ASSETS

Changes in net assets reflect the excess of revenue over expenses for a year. In 2010, revenues exceeded expenses by $412.9 million, while in 2009 it was $443.4 million. Non-operating revenues, net of expenses increased most significantly, as well as passenger fares and capital contributions, while loss from operations increased with the full year of operations of Central and Airport Link light rail service. The increase in non-operating revenues, net of expenses for 2010 reflects the full year of collecting Sales and Use Tax at the increased rate for ST2. Sound Transit's Statement of Revenue, Expenses and Changes in Net Assets is summarized in the table below:

Changes in Sound Transit Net Assets

	For the Year Ended December 31			% Change	
(in millions)	2010	2009	2008	2010-2009	2009-2008
Operating Revenues					
Passenger fares	$ 37.6	$ 29.0	$ 26.6	29.4%	9.2%
Other	2.5	3.6	4.1	(29.6)	(11.3)
Total Operating Revenues	**40.1**	**32.6**	**30.7**	**22.9**	**6.4**
Operating Expenses					
Total operating expenses, before depreciation and amortization	215.7	192.7	161.6	12.0	19.3
Depreciation and amortization	104.3	65.8	38.3	58.5	71.8
Total operating expenses	**320.0**	**258.5**	**199.9**	**23.8**	**29.4**
Loss from operations	(279.9)	(225.9)	(169.2)	23.9	33.5
Non-operating revenues, net of expenses	536.7	518.4	363.2	3.5	42.7
Income before capital contributions	**256.8**	**292.5**	**194.0**	**(12.2)**	**50.7**
Capital contributions	156.1	150.9	107.7	3.5	40.2
Change in Net Assets	**412.9**	**443.4**	**301.7**	**(6.9)**	**47.0**
Total net assets, beginning	3,621.4	3,178.0	2,876.3	14.0	10.5
Total Net Assets, ending	**$ 4,034.3**	**$ 3,621.4**	**$ 3,178.0**	**11.4%**	**14.0%**

OPERATING REVENUES

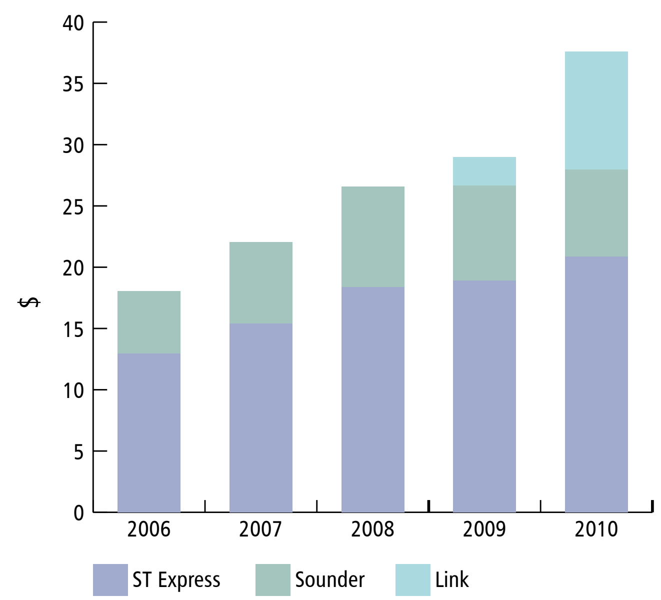
Operating revenues are composed of passenger fares and other revenue related to operations.

PASSENGER FARE REVENUE

Passenger fare revenue consists of fares earned from the sale of One Regional Card for All (ORCA) products, ticket vending machine receipts for Sounder and Link, farebox receipts for ST Express, and the sale of Puget Passes from riders on Sounder, Link and ST Express. In 2010, Sound Transit experienced overall growth in passenger fares revenue of 29.4%, passenger boardings of 19.2% and an increase in its average fare per boarding (AFB) of 4.8%. The increase in the AFB is the result of a fare increase on ST Express during 2010 and a significant increase in ridership on the Link light rail service, a higher fare service. In 2009, passenger fares increased by 9.2%, passenger boardings increased by 18.5% while the AFB decreased by 6.3% with the introduction of Central link light rail service, not reflected in annual business account pricing until the following year. Without the new light rail service, passenger fare revenue and the AFB for 2009 were comparable to 2008.

The following chart displays revenue by mode in millions from 2006 to 2010:

Operating Revenue by Mode



Link consists of Central Link (Central and Airport Link light rail) and Tacoma Link light rail service. In 2010 Central Link light rail passenger revenue more than doubled from 2009 as the line operated for a full year in 2010 compared to six months for Central Link in 2009. Passenger revenue increased as Sound Transit experienced ridership gains that were derived from new riders, as well as riders from other Sound Transit service modes and other local bus service who began commuting on Central Link light rail. Tacoma Link is a free fare service, and therefore does not generate passenger revenues.

Central Link ridership for 2010 totaled 7.0 million, with an AFB of $1.38, an increase of 40.2% from 2009. In 2009 ridership was 2.5 million with an AFB of $0.98. The increase in AFB is due to an increase in average trip length with the opening of the extension of the line to SeaTac International Airport in December 2009. Ridership on Tacoma Link, a fare free service, was 0.9 million, and was comparable to 2009 and 2008 levels.

Sounder rail passenger revenue decreased $0.7 million or 8.3% in 2010 ($0.4 million or 5.1% in 2009). Ridership held steady in 2010 at 2.5 million and decreased 6.6% in 2009, due to a slowing regional economy, lower automobile fuel prices and reduced congestion, which combined to reduce the incentives to use rail transit. The AFB on Sounder in 2010 was $2.88, a decrease of 7.8% from the 2009 AFB of $3.12. This decrease in AFB is a result of varying ridership patterns and greater utilization of Sounder service by business account riders on fixed price multi-modal revenue contracts.

ST Express bus passenger revenue increased by $2.0 million or 10.3% in 2010 due to a fare increase of $0.50 in June and by $0.5 million or 2.6% in 2009 as Sound Transit started to implement ST2 service enhancements on the routes into South Snohomish County and east to Issaquah and Redmond. Despite the weakening economy, ridership on ST Express has remained consistent since 2008 reflecting the preservation of service resulting from route enhancements deployed on heavily traveled routes that included increased service hours of 3.1% in 2010 and 6.2% in 2009.

The AFB on ST Express in 2010 was $1.67, an increase of 13.6% from the prior year compared to an unchanged AFB of $1.47 in 2009. The increase in 2010 was a result of the fare increase needed to maintain farebox recovery levels. Boardings per trip in 2010 were comparable to 2009 despite the slow economy.

Ridership numbers by year and mode of transportation are as follows:

Ridership

(in thousands)	2010	2009	2008	% change 2010-2009	% change 2009-2008
Link	7,914.4	3,421.8	926.1	131.3%	269.5%
Sounder	2,480.1	2,492.4	2,668.6	(0.5)	(6.6)
ST Express	13,092.8	13,784.8	13,028.5	(5.0)	5.8
Total	**23,487.3**	**19,699.0**	**16,623.2**	**19.2%**	**18.5%**

Other Operating Revenues

Other operating revenues consist of vehicle advertising, rental of equipment and facilities, operating grants and other miscellaneous revenue. Other revenues of $2.5 million were down $1.1 million or 29.6% from 2009. Lower rental revenue was earned with the termination of vehicle lease arrangements with Metrolink for several of our Sounder revenue vehicles required by Sound Transit to meet planned service expansion requirements on the Sounder South Line in 2010. In 2009, other revenues were down $0.5 million or 11.3% from 2008 due to lower advertising revenues, which are seen as discretionary expenses during periods of economic decline.

OPERATING EXPENSES

Operating expenses comprise operations and maintenance costs, general and administrative, fare and project planning and depreciation and amortization.

Operations and Maintenance

Operations and maintenance expenses for all transit modes increased in 2010 by $16.3 million or 10.0% and by $40.0 million or 32.7% in 2009. These expenses are classified by function using National Transit Database definitions as prescribed by the Federal Transit Administration into vehicle operations, vehicle maintenance and non-vehicle maintenance. Vehicle operations expenses consist of costs to dispatch and operate vehicles while in revenue service including security and fare collection. Vehicle maintenance expenses include costs associated with ensuring the revenue vehicles are operational, fueled, inspected and repaired. Non-vehicle maintenance expenses include costs necessary to ensure buildings, equipment, and transit structures and systems are operational. See the table below for operating and maintenance expenses by function.

Vehicle operations expenses increased $9.3 million or 9.5% in 2010 ($18.9 million or 23.9% in 2009) due to the expansion of service on all modes as Sounder added additional reverse commute trips, ST Express implemented ST2 service enhancements and Central Link began revenue service as well as increases in operator fees in 2010 and 2009.

Vehicle maintenance expenses increased $1.3 million or 2.8% in 2010 ($11.7 million or 35.1% in 2009) reflecting the aging of the Sounder and ST Express fleet and new service maintenance performed on the Central Link light rail vehicles that began revenue service June 2009 for years 2010 and 2009.

Non-vehicle maintenance expenses increased $5.7 million or 29.7% in 2010 ($9.4 million or 94.8% in 2009) with the full year impact of the deployment of fare collection equipment for light rail, increased share of maintenance costs related to the Downtown Seattle Transit Tunnel (DSTT) on opening of light rail in July 2009 and transit facilities supporting the Central Link light rail service, as well as an increase in maintenance performed at existing transit facilities in 2010 and 2009.

Operations and Maintenance Expenses by Function

(in millions)	2010	2009	2008	% change 2010 – 2009	% change 2009 – 2008
Vehicle operations	$ 107.1	$ 97.8	$ 78.9	9.5%	23.9%
Vehicle maintenance	46.7	45.4	33.7	2.8	35.1
Non-vehicle maintenance	24.9	19.2	9.8	29.7	94.8
Total	**$ 178.7**	**$ 162.4**	**$ 122.4**	**10.0%**	**32.7%**

The following table presents operating and maintenance expenses by mode.

Operating and Maintenance Expenses by Mode

(in millions)	2010	2009	2008	% change 2010-2009	% change 2009-2008
Link	$ 49.4	$ 43.1	$ 8.7	14.4%	388.6%
Sounder	32.7	34.3	31.2	(4.7)	9.4
ST Express	96.6	85.0	82.3	13.7	3.3
Total	**$178.7**	**$162.4**	**$122.2**	**10.0%**	**32.9%**

Major modal expense categories consist of services, materials, supplies, utilities, insurance, taxes, and purchased transportation, allocated overhead from staff divisions and operating leases and rentals. Purchased transportation represents amounts paid to BNSF Railway Company (BNSF), which operates Sounder commuter rail, and to Community Transit, King County Department of Transportation (DOT) and Pierce Transit who operate Sound Transit's express bus service and King County DOT Rail Division, which operates the Central Link light rail. Purchased transportation services accounts for 63.1% of this category, 55.5% in 2009. Services are the next largest expenditure category and include the Sounder vehicle maintenance contracted to Amtrak and various contracts for facilities maintenance and security at Sound Transit owned and shared facilities. Services were 19.7% in 2010 and 25.0% in 2009 of total operating and maintenance expenses. Below is a discussion of the major changes in these expense categories by mode.

Link operating and maintenance expenses include both Tacoma Link and Central Link light rail lines. Total light rail operating and maintenance expenses increased $6.3 million or 14.4% from 2009 ($34.4 million or 388.6% from 2008) with the full-year operation of the Central Link light rail service. The 2010 operating and maintenance expenses for Central Link were $46.0 million, an increase of 16.3% from 2009 primarily in maintenance and purchased transportation service for the operation of a full year of revenue service in 2010 compared to a half year in 2009. Total operating and maintenance expenses for Central Link were $40.0 million in 2009. Service to the airport commenced at the end of December 2009, also contributing to the increase in cost in 2010. Tacoma Link operating and maintenance expenses were comparable for 2010, 2009 and 2008.

Operating and maintenance costs decreased on Sounder by 4.7% in 2010 and increased 9.4% in 2009. Specifically service costs decreased $2.3 million as security and fare collection services are now shared with other modes, most significantly light rail, resulting in a significant per unit cost decrease for Sounder. Purchased transportation costs increased slightly with the operation of a full year of an additional reverse commute trip deployed in June 2009 in the South corridor. In 2009, purchased transportation costs decreased $1.7 million with the negotiation of lower rates with BNSF for the operation of our trains, while services increased $2.5 million due to additional security deployed at the stations and increased maintenance costs incurred on the fleet as it approached mid-life maintenance cycles.

ST Express operating and maintenance costs increased 13.7% in 2010 and 3.3% in 2009. Purchased transportation costs increased $11.4 million in 2010 as the majority of the ST2-related service enhancements were implemented, operator fees increased, significant maintenance was performed on the aging New Flyer bus fleet and maintenance fees for the facilities and DSTT increased. The 2009 increase reflects higher costs for the deployment of additional security services, maintenance of the facilities and increased costs for the use of the DSTT.

General and Administrative

General and administrative expenses comprise Agency staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses. In 2010, general and administrative expenses increased by $9.6 million or 38.9%, while in 2009 they decreased by $0.3 million or 1.6%.

General and Administrative Expenses

(in millions)	2010	2009	2008	% change 2010-2009	% change 2009-2008
Salaries	$ 10.1	$ 10.8	$ 7.6	(6.3)%	41.2%
Benefits	5.6	5.7	4.1	(2.4)	40.3
Services and professional fees	14.1	4.7	9.7	197.9	(51.6)
Other	4.4	3.4	3.5	31.1	(5.3)
General and administrative	**$ 34.2**	**$ 24.6**	**$ 24.9**	**38.9%**	**(1.6%)**

Salaries and benefits for 2010 were comparable to 2009; however, in 2009 salaries and benefits increased from 2008 by 41.2% and 40.3%, respectively, as Agency staffing increased to support in house fare collection (ticket vending machine network and smart card), ST2 and Central Link light rail operations. Services and professional fees increased $9.4 million or 197.9% in 2010 reflecting additional costs incurred to support construction claim resolution. In 2009, it decreased by $5.0 million or 51.6% due to changes in the Owner Controlled Insurance Program (OCIP) construction claims loss reflecting a significant number of claim settlements, resulting in a lower provision than was previously estimated by the actuary. Other expenses increased by $1.1 million or 31.1% from 2009 due to a full-year lease of additional office space that commenced at the end of 2009. Other expenses for 2009 were comparable to 2008.

Fare and Regional Planning

Fare and regional planning expense includes regional fare planning, policy research and development, and planning with regional agencies to develop new markets and policies regarding regional and systemwide projects and issues. In 2010, fare and regional planning expenses decreased by $2.8 million or 49.3% as planning related to East Link was completed in 2009. Fare and project planning expense decreased in 2009 by $8.5 million or 59.7% with the completion of work related to the ST2 plan, which went to the voters in November 2008.

Fare and Regional Planning Expenses

(in millions)	2010	2009	2008	% change 2010-2009	% change 2009-2008
Fare and regional planning	$ 2.9	$5.7	$ 14.2	(49.3)%	(59.7)%

Depreciation and Amortization

Depreciation and amortization includes insignificant gain or loss on disposal of assets used in operations. Depreciation and amortization increased in 2010 by $38.5 million or 58.5% from the prior year ($27.5 million increase in 2009). The increase in 2010 reflects a full year of depreciation and amortization of the Central Link light rail system compared to six months in 2009 and a full year for assets related to the extension of Central Link to the airport, which opened at the end of December 2009. In 2009, the increase in depreciation and amortization from 2008 reflects the Central Link light rail system that went into revenue service in July 2009.

Non-Operating Revenues (Expenses)

Non-operating revenues (expenses) comprise tax revenues, investment income, interest expense and discontinued or impaired project costs. Net non-operating revenues increased by $18.2 million or 3.5% in 2010. In 2009, net non-operating revenues increased $155.2 million or 42.7%.

Non-operating Revenues and Expenses

(in millions)	2010	2009	2008	% change 2010-2009	% change 2009-2008
Non-operating revenues:					
Sales and use tax	$ 504.1	$ 440.9	$ 265.4	14.3%	66.2%
Motor vehicle excise tax	65.8	67.3	68.6	(2.2)	(1.9)
Rental car tax	2.4	2.9	2.5	(16.0)	14.8
Investment income	14.1	12.4	23.6	14.3	(47.7)
Other revenues	10.8	0.9	7.9	1,070.0	(88.5)
Total	**597.2**	**524.4**	**368.0**	**13.9**	**42.5**
Non-operating expenses:					
Interest incurred	76.4	62.5	57.8	22.3	8.1
Interest capitalized	(23.6)	(62.3)	(57.8)	(62.1)	7.8
Interest expense	52.8	0.2	-	28,875.0	-
Discontinued/impaired projects	7.7	5.8	4.8	32.4	20.0
Total	**60.5**	**6.0**	**4.8**	**912.8**	**23.8**
Net non-operating revenues	**$ 536.7**	**$ 518.4**	**$ 363.2**	**3.5%**	**42.7%**

Sales and Use Tax Revenues

(in millions)	2010	2009	2008	% change 2010-2009	% change 2009-2008
Sound Move	$ 224.0	$ 226.6	$ 265.4	(1.1)%	(14.6)%
ST2	280.1	214.3	-	30.7	-
Total	**$ 504.1**	**$ 440.9**	**$ 265.4**	**14.3%**	**66.2%**

The increase in Sales and Use Tax revenues of $63.2 million had the most significant impact on non-operating revenues as taxes were collected at the higher ST2 tax rate for the whole year in 2010 compared to nine months in 2009. Sales and Use tax increased by $175.5 million in 2009 over 2008. The tax rate increased from 0.4% to 0.9%, effective April 2009 as part of the November 2008 voter approved ST2 ballot measure. In the absence of the increase in the tax rate, Sales and Use Tax revenues would have declined due to the economic downturn, as illustrated below; however, the impact of such declines in 2010 (a decline of 1.1%) was much less significant than in 2009 (a decline of 14.6%).

Motor Vehicle Excise Taxes decreased $1.5 million or 2.2% in 2010 ($1.3 million or 1.9% in 2009), reflecting the current economic recession. The 2008 Motor Vehicle Excise Tax included a $4.5 million refund for over collection of taxes going back to 2005. Investment earnings increased by $1.7 million in 2010, reflecting higher cash and investment balances on hand during the year from the issuance of bonds in September 2009. In 2009, the investment income decreased $11.2 million due to lower interest rates than in 2008.

Interest expense increased $52.6 million from 2009 reflecting additional interest incurred on the 2009 bonds issued September 2009 of $13.9 million and more significantly a decrease in the interest capitalized to construction in process (a decrease of 62.1%). Construction spending on the capital program was lower in 2010, with the most significant spending occurring on University Link projects as that work began, while the Initial Segment (Central and Airport link) light rail project was completed in 2009. Substantially all interest incurred was capitalized in 2009.

In 2010, impairments of $7.7 million were recognized of which $1.0 million was for costs incurred on the University Link project resulting from changes in scope on work related to the Montlake Triangle portion of the project and $6.7 million was for costs incurred to mitigate voids that were created in the construction of Beacon Hill Tunnel on the Initial Segment project. In 2009, a joint project with WSDOT was discontinued due to a lack of available funding by the State legislature to WSDOT to complete the project that resulted in the write-off of $5.8 million of design-related costs.

Capital Contributions

Capital contributions include federal grant funding, state and local contributions to Sound Transit, as well as contributions from Sound Transit to state and local governments pursuant to capital improvement or funding agreements. Net capital contributions increased in 2010 by $5.2 million and reflect a significant decrease in the number of projects completed in 2010 contributed to other governments. In 2009, net capital contributions increased by $43.3 million with an increase in state and local grants received and a decrease in projects completed and donated to other governments. The following table summarizes capital contributions by major category:

Capital Contributions

(in millions)	2010	2009	2008	% change 2010-2009	% change 2009-2008
Federal	$ 151.8	$ 153.1	$ 161.6	(0.8)%	(5.3)%
State and local governments	12.0	23.3	13.9	(48.6)	68.3
To other goverments	(7.7)	(25.5)	(67.9)	(69.8)	(62.4)
Total	**$ 156.1**	**$ 150.9**	**$ 107.6**	**3.5%**	**40.2%**

Federal contributions decreased by $1.3 million in 2010 and $8.5 million in 2009. The decrease is a result of the complete recognition of the federal funding related to the Central and Airport Link projects that were completed in 2009. In 2010 and 2009, Sound Transit received $16.4 million and $48.3 million, respectively, in American Recovery and Reinvestment Act (ARRA) funds, which were available for immediate drawdown on projects ready for construction. Most of the ARRA funds went to the University Link project, but Sounder and Regional Express projects also benefited. In 2009, significant projects that received federal funding included University Link, Initial Segment, and Sounder corridor projects.

State and local government contributions decreased by $11.3 million over 2009. In 2010, the State contributed $3.2 million to the Sounder D to M Street project, $1.9 million to the Mountlake Terrace Freeway Station project and $4.5 million to the purchase of new buses. In 2009, the State granted an airspace lease to allow for the construction of the University Link tunnel of $7.6 million and contributed $9.5 million to the Sounder D to M Street project.

Contributions to other governments decreased in 2010 by $17.8 million. As contributions are dependent upon the timing and scope of project activities, there are significant fluctuations from year to year. Total contributions in both 2010 and 2009 decreased, reflecting the near completion of non-ST owned Sound Move projects. In 2010, the significant project completed, where Sound Transit does not retain ownership, was the Newcastle Transit Center, as well as additional costs incurred on several projects previously donated. In 2009, significant contributions were the "L" Street Layover facility, 58th Street Improvements at the South Tacoma Station, and the mobile communications infrastructure project.

CAPITAL ASSETS

As of December 31, 2010, Sound Transit had invested $4.6 billion in capital assets, net of accumulated depreciation and amortization, which included $3.2 billion of depreciable assets in service. This represents a $409.8 million or a 9.8% increase over 2009. The increase reflects capital project spending for University Link, Sounder South Line corridor and Regional Express fleet replacement and expansion. Capital Projects in Progress (CIP) increased $319.5 million or 81.7% while depreciable assets increased $39.0 million or 1.2%.

Sound Transit Capital Assets (*net of depreciation*)

(in millions)	As of December 31			% Change	
	2010	2009	2008	2010-2009	2009-2008
Land	$388.1	$379.0	$360.2	2.4%	5.2%
Permanent easements	327.8	285.6	282.2	14.8	1.2
Capital projects in progress					
Sound Transit	673.4	372.5	2,414.5	80.8	(84.6)
Other governments	37.5	18.8	16.8	98.3	(11.9)
Total Non-Depreciable Assets	**1,426.7**	**1,055.9**	**3,073.7**	**35.1**	**(65.6)**
Buildings, transit facilities & rail	2,370.2	2,329.1	360.2	1.8	546.6
Access rights	421.6	445.3	315.7	(5.3)	41.1
Revenue vehicles	386.0	362.1	164.2	6.6	120.5
Equipment, vehicles & other	6.0	8.3	3.6	(28.6)	134.3
Total Depreciable Assets	**3,183.8**	**3,144.8**	**843.7**	**1.2**	**272.7**
Total Net Capital Assets	**$ 4,610.5**	**$ 4,200.7**	**$ 3,917.4**	**9.8%**	**7.2%**

Land increased by $9.1 million in 2010, reflecting acquisitions for the North Link project and the reclassification of land from inventory as the purchase and sale agreement terms with the city of SeaTac were not achieved and Sound Transit intends to use the land in the South Link project. In 2009, land increased by $18.8 million, related to acquisitions for the Sounder D to M Street extension, South Link and University Link.

Permanent easements increased in 2010 by $42.2 million with the acquisition of a permanent easement from BNSF to operate an additional round trip in the Sounder Seattle to Tacoma corridor. In 2009, permanent easements increased $3.4 million with the acquisition of easements for the University Link project.

CIP had additions in 2010 of $520.6 million, most significantly related to the University Link project while 2009 had additions of $397.9 million primarily for University Link and Central Link projects. Capital projects that incurred major spending activity in 2010 and 2009 are summarized in the table below.

Building, transit facilities, and rail, net of depreciation and amortization, increased in 2010 by $41.1 million reflecting the capitalization of Tacoma to Lakewood Track & Signal project and additional capitalized costs to close out the Initial Segment light rail projects. In 2009, the increase was $2.0 billion, primarily related to the capitalization of the Initial Segment light rail project. The Everett and South Tacoma Stations were also capitalized in 2009.

Access rights, net of depreciation and amortization, decreased by $23.7 million in 2010 and increased by $129.6 million in 2009. Access rights decreased due to depreciation and amortization exceeding current year additions. Access costs reflect the cost of acquiring rights from the Cities of Seattle, Tukwila and SeaTac for the purposes of running the light rail in city right of way, rights acquired from BNSF to operate Sounder train service, as well as a right to use Washington State Fairgrounds for Sounder commuter parking.

Revenue vehicles, net of depreciation and amortization, increased in 2010 by $23.9 million with the purchase of additional buses for replacement and service expansion purposes. In 2009, revenue vehicles, net of depreciation and amortization, increased $197.9 million due to the capitalization of the light rail vehicles.

More detailed information about Sound Transit's capital assets is presented in note 5 to the Financial Statements.

Major Capital Project Activities from 2010 and 2009

	Sounder	Link	ST Express
2010	■ Sounder South Expanded Service ■ Tacoma to Lakewood Track & Signal ■ D Street to M Street Track & Signal	■ Northlink (UW Station to Northgate) ■ University Link (PSST to UW Station) ■ Central Link (Beacon Hill Tunnel) ■ University Maintenance Base Expansion ■ East Link (Downtown to Bellevue) ■ South Link (176th to 200th)	■ Fleet Expansion & Replacement ■ Mountlake Terrace Freeway Station
2009	■ M Street to Lakewood Track & Signal ■ D Street to M Street Track & Signal	■ University Link ■ Central Link (CPS to 154th; Beacon Hill Station) ■ Airport Link (170th to 176th) ■ Traction Power and other Systems ■ Light Rail Vehicles ■ Fare Collection ■ East Link (Downtown to Bellevue)	■ Evergreen Medical Center ■ Mountlake Terrace Freeway Station ■ I-90 2 Way Transit HOV ■ Newcastle Transit Center

LONG TERM DEBT

Sound Transit issued no debt in 2010. In September 2009, Sound Transit issued three series of bonds with a par value of $400.0 million of which $376.8 million were Build America Bonds. The bonds were issued at a premium of $2.5 million for net proceeds before bond issuance costs of $402.5 million. Total bond issue costs for the three series of bonds were $3.2 million.

Under state law, issuance of bonds payable from any type of taxes is subject to statutory debt limitations. Sound Transit is currently authorized to incur debt in an amount equal to 1½% of the value of taxable property within the service area, without securing voter approval for bonds. With the approval of 60% of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5% of the value of taxable property within the service area. Based on the 2009 assessed valuations for collection of 2010 taxes, Sound Transit's non-voter approved remaining debt capacity is $5.1 billion and its voter approved remaining debt capacity is $20.5 billion.

ECONOMIC CONDITIONS

The economic recession continues to negatively impact Sound Transit's tax collections as declines in retail and motor vehicle sales directly translate into lower tax revenues. Tax revenues increased 12.0% in 2010 and 51.2% in 2009, primarily due to the impact of a 0.5% Sales and Use Tax increase effective April 1, 2009, implemented to fund the ST2 program approved by voters in November 2008; however, excluding the ST2 increase, tax revenues would have decreased 1.5% from 2009 and 11.8% from 2008.

KPMG

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Independent Auditors' Report

Audit and Reporting Committee
Central Puget Sound Regional Transit Authority:

We have audited the accompanying balance sheets of Central Puget Sound Regional Transit Authority (a public corporation acting under the service name Sound Transit) as of December 31, 2010 and 2009, and the related statements of revenue, expenses, and changes in net assets and of cash flows (herein referred to as the "financial statements") for the years then ended. These financial statements are the responsibility of Sound Transit's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sound Transit's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sound Transit as of December 31, 2010 and 2009, and the changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 1 through 16 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

June 1, 2011

Balance Sheets

	December 31	
(in thousands)	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	$ 124,746	$ 438,373
Restricted assets (Note 3)	2,812	3,296
Investments (Note 3)	815,089	303,900
Taxes and other receivables (Notes 4)	132,709	157,098
Inventory	12,334	14,261
Prepaid expenses	5,727	5,147
Total Current Assets	**1,093,417**	**922,075**
Non-Current Assets		
Capital assets, net of accumulated depreciation (Note 5)	4,610,501	4,200,684
Restricted assets (Note 3)	106,512	236,447
Investment held to pay capital lease obligation (Note 6)	63,308	62,464
Unamortized bond issuance costs	9,890	10,486
Prepaid expense and deposits	20,149	19,050
Total Non-Current Assets	**4,810,360**	**4,529,131**
Total Assets	**$ 5,903,777**	**$ 5,451,206**
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	$ 131,784	$ 94,900
Deferred receipts	2,058	1,612
Interest payable from restricted assets	18,225	19,038
Current portion, long-term debt (Note 8)	18,465	8,065
Other claims and short-term obligations	76,075	62,812
Total Current Liabilities	**246,607**	**186,427**
Non-Current Liabilities		
Long-term debt (Note 8)	1,550,473	1,571,248
Capital lease obligations (Note 6)	63,308	62,464
Other long-term obligations (Note 9)	9,099	9,652
Total Non-Current Liabilities	**1,622,880**	**1,643,364**
Total Liabilities	**1,869,487**	**1,829,791**
Commitments and contingencies (Notes 6, 9, 11, and 12)		
Net Assets		
Invested in capital assets, net of related debt	3,051,453	2,775,503
Restricted for debt service and other (Note 10)	91,099	78,263
Unrestricted	891,738	767,649
Total Net Assets	**4,034,290**	**3,621,415**
Total Liabilities and Net Assets	**$ 5,903,777**	**$ 5,451,206**

See Notes to Financial Statements

Statements of Revenues, Expenses and Changes in Net Assets

	December 31	
(in thousands)	2010	2009
Operating Revenues		
Passenger fares	$ 37,589	$ 29,048
Other operating revenue	2,547	3,617
Total Operating Revenues	**40,136**	**32,665**
Operating Expenses		
Vehicle operations	107,092	97,774
Vehicle maintenance	46,757	45,473
Non-vehicle maintenance	24,869	19,169
General and administrative	34,165	24,601
Fare and regional planning	2,891	5,703
Depreciation, amortization and accretion	104,285	65,808
Total Operating Expenses	**320,059**	**258,528**
Loss from Operations	**(279,923)**	**(225,863)**
Nonoperating Revenues (Expenses)		
Sales tax	504,101	440,929
Motor vehicle excise tax	65,788	67,290
Rental car tax	2,409	2,869
Investment income	14,122	12,360
Recovery of prior year insured losses	3,250	875
Other revenues	7,428	37
Interest expense	(52,765)	(182)
Discontinued and impaired projects	(7,659)	(5,784)
Total Nonoperating Revenues, Net	**536,674**	**518,394**
Income before Capital Contributions	**256,751**	**292,531**
Federal capital contributions	151,824	153,086
Other capital contributions	12,003	23,336
Capital contributions to other governments	(7,703)	(25,519)
Net Capital Contributions	**156,124**	**150,903**
Change in Net Assets	**412,875**	**443,434**
Total Net Assets, Beginning of Year	**3,621,415**	**3,177,981**
Total Net Assets, End of Year	**$ 4,034,290**	**$ 3,621,415**

See Notes to Financial Statements

Statements of Cash Flows

(in thousands)	December 31 2010	December 31 2009
Cash Flows from Operating Activities		
Cash receipts from fares	$ 39,907	$ 28,836
Cash receipts from other operating revenue	2,856	3,720
Payments to suppliers	(64,485)	(73,165)
Payments to transportation service providers	(100,929)	(101,948)
Payments to employees for wages and benefits	(35,584)	(31,485)
Net Cash Used by Operating Activities	**(158,235)**	**(174,042)**
Cash Flows from Noncapital Financing Activities		
Taxes received	569,565	461,338
Net Cash Provided by Noncapital Financing Activities	**569,565**	**461,338**
Cash Flows from Capital and Related Financing Activities		
Capital contributions from grants	187,300	184,605
Proceeds on issuance of bonds	—	399,732
Proceeds on land sales	—	1,895
Proceeds for betterments and recoverable costs	774	213
Purchase of property, vehicles and equipment	(358)	(939)
Payments in respect of capital projects in progress	(446,746)	(281,242)
Payments to employees capitalized to capital projects in progress	(14,925)	(13,017)
Payments for bond interest, principal and promissary notes	(8,065)	(44,810)
Payments for owner controlled insurance premiums	(3,942)	(8,315)
Cash paid for interest	(71,463)	(58,871)
Other	(32)	(615)
Net Cash (Used) Provided by Capital and Related Financing Activities	**(357,457)**	**178,636**
Cash Flows from Investing Activities		
Purchases of investments	(809,448)	(344,509)
Proceeds from sales or maturities of investments	302,709	258,133
Investment income	10,256	13,462
Net Cash Used by Investing Activities	**(496,483)**	**(72,914)**
Net (Decrease) Increase in Cash and Cash Equivalents	**(442,610)**	**393,018**
Cash and Cash Equivalents		
Beginning of year	616,583	223,565
End of Year	**$ 173,973**	**$ 616,583**
Cash and Cash Equivalents (Note 3)		
Unrestricted	$ 124,746	$ 438,373
Current restricted	1,018	1,009
Non-current restricted	48,209	177,201
	$ 173,973	**$ 616,583**

See Notes to Financial Statements

Statements of Cash Flows

(in thousands)	December 31 2010	December 31 2009
Loss from Operations	**$ (279,923)**	**$ (225,863)**
Adjustments to Reconcile Loss from Operations to Net Cash Used by Operating Activities		
Depreciation, amortization and accretion	104,285	65,808
Changes in Operating Assets and Liabilities		
Decrease (increase) in accounts receivable	323	(286)
Decrease in due from other governments	2,686	813
Increase in grants receivable	(4)	(8)
(Increase) decrease in materials, parts and supplies	(575)	21
Decrease (increase) in prepaid expenses	511	(234)
Increase in accounts payable, accrued and other liabilities	4,435	1,580
Increase in salaries, wages and benefits payable	409	764
Increase (decrease) in deferred pass fare receipts	442	(1,772)
Increase (decrease) in due to other governments	10,114	(10,993)
(Decrease) in other current liabilities	(948)	(3,872)
Net Cash Used by Operating Activities	**$ (158,245)**	**$ (174,042)**

(in thousands)	December 31 2010	December 31 2009
Supplemental Disclosures of Non-Cash Operating, Investing and Financing Activities		
Capital contributions to other governments	$ (7,703)	$ (25,519)
Capital contributions from Land Bank	173	7,657
Construction in progress in current liabilities	153,951	118,421
Interest income from investments held to pay capital leases, net	844	847
Interest expense on capital leases	(844)	(847)
Decrease in fair value of investments	(982)	(769)

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

1. ORGANIZATION AND REPORTING ENTITY

As provided under the Revised Code of Washington (RCW) Chapter 81.112 applicable to a regional transit authority, the Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, was established in 1993. Sound Transit was formed to implement a high capacity transportation system throughout parts of King, Pierce, and Snohomish counties in the State of Washington through the design, construction, and implementation of a commuter rail (Sounder), light rail (Link) and regional express bus system (ST Express).

Reporting Entity

Sound Transit is a special purpose government supported primarily through Sales Tax, Motor Vehicle Excise Tax and Rental Car Tax in Sound Transit's operating jurisdiction. In addition, Sound Transit receives capital funding from federal, state and local agencies.

Sound Transit is governed by an 18 member board, seventeen of whom are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from the portion of each county that lies within Sound Transit's service area. Representation on the board includes an elected official representing the largest city in each county and ensures proportional representation from other cities and from unincorporated areas of each county. The final board position is held by the Secretary of Transportation, Washington State Department of Transportation.

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, all organizations for which the primary government is financially accountable and other organizations that, by the nature and significance of their relationship with the primary government, would cause the financial statements to be incomplete or misleading if excluded. Based on these criteria, Sound Transit is considered a primary government and does not have any component unit relationships. Conversely, Sound Transit is not considered a component unit of any primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of significant accounting policies is presented to assist the reader in interpreting the financial statements and should be considered an integral part of the financial statements.

Basis of Accounting – The accounts are maintained and financial statements prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. All applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) codification have been applied, except for the FASB codification that contradicts GASB pronouncements.

Tax revenues include taxes on retail sales of goods and services, rental car revenue and a motor vehicle excise tax. These taxes are levied within the district at a rate of 0.9% for Sales and Use, 0.8% on Rental Car Revenue and 0.3% for Motor Vehicle Excise. For collections April 1, 2009 and thereafter, the Sales and Use Tax rate increased from 0.4% to 0.9%. These taxes are collected on Sound Transit's behalf by the Department of Revenue and the Department of Licensing of the State of Washington and are recorded in the period when the underlying transaction occurs on which the tax is imposed.

Operating revenues consist primarily of passenger fares, which are recognized in the period in which services are provided and are earned, and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets. Depreciation and amortization of capital assets and amortization of deferred revenue, bond issuance costs, asset retirement obligation and deferred rent is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

Capital Assets – Capital assets are stated at cost, except for donated capital assets, which are stated at the fair value on the date of donation. Expenditures for additions and improvements with a value in excess of $5,000 and a useful life of more than one year are capitalized. Expenditures for maintenance, repairs and minor improvements are charged to operations as incurred. Depreciation and amortization of capital assets is recorded using the straight line method over the estimated useful lives of the assets and leasehold improvements over the shorter of the life of the asset or length of the related agreement as follows:

(in years)	Estimated useful life
Access rights	5 – 100
Buildings	8 – 30
Transit facilities, rail, and equipment	6 – 70
Pedestrian bridges	30 – 100
Operations maintenance facilities	30 – 75
Fixed guideways	30 – 150
Park-and-ride lots and shelters	10 – 20
Revenue vehicles – Cab cars and coach cars	40
Revenue vehicles – Locomotives	29
Revenue vehicles – Light rail	25 – 30
Revenue vehicles – Buses	12 – 15
Furniture and equipment, administrative vehicles and leasehold improvements	3 – 10

On an annual basis, Sound Transit evaluates whether events or circumstances have occurred affecting capital assets that are other-than-temporary in nature and which could result in an impairment of those assets. Impairment is considered to have occurred if there is a decline in the service utility that is large in magnitude and the event or circumstance is outside the normal life cycle of the asset. Impairment losses on assets that will no longer be used are measured based on the lower of carrying value or fair value of the affected asset. Impairment losses on assets that will continue to be used are measured using the best method that reflects the diminished service utility of the related asset.

All costs directly attributable to capital projects, as well as certain indirect costs that are allocated to the projects based on various applicable factors supporting the overhead rates used, are capitalized. Capital projects in progress balances include costs incurred for transportation projects not yet in service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that will be transferred to other governments upon completion.

Access rights include costs incurred or rights acquired that allow Sound Transit to operate its commuter rail and light rail service in the right of way of other entities. Access rights are amortized over the life of the underlying asset constructed or the term of the contractual agreement granting the related right. See note 12, Commitments and Contingencies, for additional access right details.

Interest costs on funds borrowed through tax exempt and taxable debt to finance the construction or acquisition of certain capital assets are capitalized during the period of construction or acquisition and are depreciated over the life of the related assets once placed into service.

Capital Contributions to Other Governments – Pursuant to capital improvement agreements, Sound Transit has provided funding to or constructed assets for various governments or their wholly owned subsidiaries for transit related capital improvements. For assets constructed for other governments, these costs are capitalized and included in capital projects in progress until the asset is substantially completed and accepted, at which time it is charged to capital contributions to other governments.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash on hand, demand deposits and short term investments with maturities of three months or less when purchased. Investments in the Local Government Investment Pool (LGIP) are managed by the Washington State Treasurer's Office, and in 2009, investments in the King County Investment Pool were managed by the King County Finance Division. Investments in the LGIP are considered a 2a7-like fund as defined by the amended Investment Company Act of 1940 (the Act). All LGIP investments are managed in accordance with the Act to ensure a stable value and average investment maturity remains within 60 days and has a unit value of $1. Cash and cash equivalents are carried at cost, which approximates fair value.

Compensated Absences – Vacation leave that has been earned but not paid is accrued. Similarly, sick leave is accrued as the benefits are earned but only to the extent that Sound Transit will compensate the employees through cash payments conditional on the employee's termination, retirement or death. Vacation pay, which may be accumulated up to 50 days, is payable upon termination, retirement or death. Sick leave is payable at the rate of 50% of accrued hours upon resignation, retirement or death for employees hired before January 1, 2004, and 25% for employees hired after that date, and is limited to 120 days for termination other than for retirement or death.

Environmental Remediation Obligations – Environmental remediation activities are reviewed routinely to determine if whether an obligating event, as defined by GASB statement No. 49: *Accounting and Financial Reporting for Pollution Remediation Obligations* has occurred, when the liability should be accrued and whether the cost should be expensed or capitalized. Generally such costs are incurred with respect to properties that Sound Transit is preparing for its own use or are required in the construction of its projects and subsequently resold. As such, these costs are recorded as incurred and capitalized to the project. Cost in excess of the property's fair market value, or that do not meet capitalization criteria under generally accepted accounting principles, are accrued and expensed as soon as a reasonable estimate can be obtained.

Inventory – Inventory includes land held for sale, parts, materials, and supplies, and is recorded at the lower of purchased cost or net realizable value. These assets are reviewed periodically for slow moving and obsolete items and any impairment in value is reflected as a charge to operations.

Investment Valuation – Investments are stated at fair value.

New Accounting Pronouncement – In June 2007, the GASB issued Statement No. 51: *Accounting and Financial Reporting for Intangible Assets* (GASB No. 51), effective for years beginning after June 15, 2009. GASB No. 51 enhances existing authoritative guidance for capital assets by requiring the capitalization of certain intangible assets that meet specified criteria. GASB No. 51 also addresses specific accounting and reporting issues related to the nature of intangibles such as internally generated software, amortization, and impairment. Sound Transit adopted GASB No. 51 as of January 1, 2010 and found there was no material impact on the reporting of capital assets as Sound Transit had already accounted for and reported its intangible assets of permanent easements, software and access rights in compliance with the new standard.

In June 2008, the GASB issued Statement No. 53: *Accounting and Financial Reporting for Derivative Instruments* (GASB No. 53), effective for years beginning after June 15, 2009. GASB No. 53 requires derivatives to be recognized at their fair value and that associated changes in fair value are recognized in accordance with specified criteria in the current reporting period. Sound Transit adopted GASB No. 53 as of January 1, 2010 and found there was no material impact on the reporting of derivatives.

Reclassifications – Certain reclassifications have been made to the 2009 Financial Statements to conform to the current year's presentation.

Restricted Assets – Restricted assets are assets set aside to meet externally imposed legal and contractual obligations. Restricted assets are used in accordance with their requirements and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed.

In addition to assets set aside to meet externally imposed legal and contractual obligations, Sound Transit has also set aside three months of average annual operating expenses in cash and cash equivalents for the year ended December 31, 2010 compared to three months of average annual operating expenses for the year ended December 31, 2009. In addition, Sound Transit has established an investment fund for capital replacement, as established by resolution of its board in 2007. As these cash and investment reserves are derived from internal restrictions, they are not included in restricted assets.

Revenue and Expense Classification – Sound Transit distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing passenger services in connection with Sound Transit's principal ongoing operations. The principal operating revenues are passenger fares. Sound Transit's operating expenses include labor, materials, depreciation and amortization, services, claims, purchased transportation and other expenses related to the delivery of passenger transportation within the Central Puget Sound region. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Undivided Interests – Sound Transit participates in a joint operation (or undivided interest), jointly governed with seven other agencies for the provision of regional smart card fare collection services (ORCA). Sound Transit reports its undivided interest assets, liabilities, expenses, and revenues of the ORCA smart card system within the financial statements, as they are specifically identifiable to Sound Transit in accordance with GASB Statement No.14: *The Financial Reporting Entity*.

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Sound Transit's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC. Cash held in the Local Government Investment Pool and the King County Investment Pool is managed by the Washington State Treasurer's Office and the King County Finance Division, respectively. These pools represent an interest in a group of securities and have no specific security subject to custodial risk.

All surplus cash is invested in accordance with Washington state statute, and an investment policy approved by Sound Transit's Board and certified by the Association of Public Treasuries of the United States and Canada. Qualifying investments under this policy include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit, commercial paper, general obligation municipal bonds and repurchase agreements. Sound Transit's investment policy and monitoring program addresses common deposit and investment risks as described below, with detailed information by investment type presented in the tables that follow. Modified duration is presented in years.

In 2010, Sound Transit entered into a new agreement governing the investment of its funds in the King County Investment Pool. While available for withdrawal within established timeframes in the agreement, the underlying commitment under the new agreement is to hold the funds as long-term. Accordingly, investments in the King County Investment Pool are classified as investments in 2010 compared to cash and cash equivalents in 2009.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. For its internally managed and capital replacement funds, Sound Transit matches its investments to cash flow requirements and manages its exposure to fair value losses using the modified duration method, whereby the modified duration of fixed income securities held in its investment portfolios is compared to established benchmarks. Modified duration estimates the sensitivity of a bond's price to interest rate changes. Modified duration benchmarks for the internally managed fund was 0.58 and for the capital replacement fund was 2.78. For the Prior and Parity Bond Debt Service funds, interest rate risk is managed by using the specific identification method.

Concentration of Credit Risk – Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. The investment policy sets forth maximum concentration guidelines whereby no single Agency exceeds 50% of the overall portfolio, or 25% for repurchase agreements, general obligation bonds, PDPC financial institution sponsored investment accounts or 20% for deposit bank notes or 10% for certificates of deposit, bankers' acceptances, reverse repurchase agreements and A1/P1 commercial paper. Treasury securities and investments in the Washington State Treasurer's Local Government Investment Pool may comprise up to 100% of the portfolio. Agency Securities (combined) may comprise up to 75% of the portfolio. Participation in the King County Investment Pool is limited to 50% of the portfolio.

Credit Risk – Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of December 31, 2010, all Agency securities are rated AAA and all general obligation bonds are rated with one of the three highest credit ratings of a nationally recognized statistical rating organization. The Certificate of Deposit is covered by the PDPC and all short-term investments are rated A1/P1 as of December 31, 2010. The King County Investment Pool's rating of AAAf has not been restored as King County is waiting to implement new reporting software before seeking a re-rating. King County also needs to demonstrate to Standard & Poor's that their participation in the Washington State Treasurer's Local Government Investment Pool does not pose any concerns to the King County Investment Pool, as the Washington State Treasurer's Local Government Investment Pool is not rated. The Washington State Treasurer's Local Government Investment Pool is a 2a7-like pool and is unrated.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, Sound Transit would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments purchased by Sound Transit are held and registered in Sound Transit's name in the Trust Department or safekeeping department of a financial institution as established by a written third-party safekeeping agreement between Sound Transit and the financial institution.

Cash, cash equivalents, investments and restricted assets are as follows:

Prior and Parity Bond Debt Service Reserve

	2010			2009		
(in thousands)	Fair Value	Maturity	Call Date	Fair Value	Maturity	Call Date
Investments						
Municipal Bonds						
Pennsylvania State GO Unlimited BAB	$ 10,080	2/15/2030	****	$ -	—	—
Georgia State GO Unlimited	7,319	4/1/2026	4/1/2017*	7,802	4/1/2026	4/1/2026 *
Florida State Public Education BAB	4,885	6/1/2030	6/1/2019*	—	—	—
Hawaii State GO Unlimited BAB	4,065	2/1/2024	—	—	—	—
Georgia State GO Unlimited BAB	4,052	11/1/2027	—	—	—	—
Clark County Nevada GO Limited	—	—	—	20,134	11/1/2027	11/1/2027 *
U.S. Agency Securities:						
Federal National Mortgage Association	—	—	—	10,088	4/12/2022	4/12/2022 **
Federal Home Loan Mortgage Corp.	11,105	9/15/2029	—	—	—	—
Federal Home Loan Mortgage Corp.	8,068	2/7/2028	2/7/2013*	7,702	2/7/2028	2/7/2013 ***
Federal Home Loan Mortgage Corp.	—	—	—	5,011	2/18/2011	2/18/2010 **
	49,574			50,737		
Cash and Cash Equivalents						
Washington State Local Government Investment Pool	187			187		
	$ 49,761			**$ 50,924**		

** Continuously callable from this date forward.*
*** One-time call.*
**** Quarterly callable from this date forward.*
***** Sinking fund begins in 2027, ends in 2030*

	2010			2009		
(in thousands)	Fair value	Modified duration	Percentage of portfolio	Fair value	Modified duration	Percentage of portfolio
Investments – Internally Managed						
King County Investment Pool	$ 300,569	0.710	41.68%	$ -	-	—
U.S. Agency securities:						
Federal Farm Credit Bank	68,880	2.437	9.52%	64,844	2.080	27.21%
Federal Home Loan Bank	73,719	0.898	10.19%	34,283	1.420	14.39%
Federal Home Loan Mortgage Corporation	39,885	2.826	5.51%	39,916	1.570	16.75%
Federal National Mortgage Association	140,392	1.501	19.40%	60,411	2.830	25.36%
U.S. Treasury securities	75,914	0.469	10.49%	10,684	1.920	4.48%
Municipal bonds	15,256	2.159	2.11%	20,128	0.440	8.45%
Certificate of deposit	8,000	0.170	1.10%	8,000	0.170	3.36%
	$ 722,615	**1.163**	**100.00%**	**$238,266**	**1.880**	**100.00%**
Investments – Capital Replacement						
U.S. Agency securities:						
Federal Farm Credit Bank	$ 6,662	7.812	6.63%	$ -	-	—
Federal Home Loan Bank	18,638	1.787	18.55%	35,680	1.410	48.46%
Federal Home Loan Mortgage Corporation	24,471	3.764	24.36%	23,714	1.250	32.20%
Federal National Mortgage Association	14,674	1.972	14.60%	-	-	-
Municipal bonds	27,515	4.413	27.39%	-	-	-
U.S. Treasury securities	8,514	0.247	8.47%	14,240	0.860	19.34%
	$ 100,474	**3.284**	**100.00%**	**$ 73,634**	**1.252**	**100.00%**

(in thousands)	December 31 2010	2009
Cash and Cash Equivalents		
Investment Pools:		
King County	$1,018	$152,122
Washington State Local Government *	157,538	454,936
FDIC or PDPC insured bank deposits	11,226	8,366
Cash on hand	2,062	1,159
Escrow funds	2,129	-
	173,973	616,583
Investments and Debt Service Reserve		
Prior and parity bond debt service reserve	49,574	50,737
Investments – internally managed	722,615	238,266
Investments – capital replacement	100,474	73,634
	872,663	362,637
Other Restricted Assets		
Deductible liability protection policy	1,794	2,287
Interest receivable on restricted investments	729	509
	2,523	2,796
Total Investments, Cash and Cash Equivalents and Other Restricted Assets	$ 1,049,159	$ 982,016

* *Portion segregated for the Prior Debt Reserve. See also table on page 38.*

(in thousands)	December 31 2010	2009
Balance Sheet Classifications		
Current assets		
Cash and cash equivalents	$ 124,746	$ 438,373
Current restricted assets:		
Cash equivalents	1,018	1,009
Deductible liability protection policy	1,794	2,287
	2,812	3,296
Investments	815,089	303,900
Non-current assets		
Non-current restricted assets:		
Cash equivalents	48,209	177,201
Investments	57,574	58,737
Interest receivable	729	509
	106,512	236,447
	$ 1,049,159	$ 982,016

4. RECEIVABLES

Receivables consist of the following:

(in thousands)	December 31 2010	2009
Taxes receivable	$ 99,577	$ 96,872
Grants receivable	25,799	49,480
Accounts receivable, net	56	379
Due from other governments	5,337	8,786
Interest receivable	1,940	1,581
	$ 132,709	$ 157,098

Amounts due from other governments include amounts due under the regional fare program, amounts reimbursable under interlocal agreements for operating expenses or capital contributions for transit facilities, and betterments. Payment terms are generally defined in the various agreements with other governments and range from 21 days to 60 days. Where payment terms are not defined by agreement, they are due in accordance with the terms specified in the invoice, which is generally 30 days.

5. CAPITAL ASSETS

Capital assets are summarized as follows:

(in thousands)	December 31 2009	Additions	Disposals Retirements	Transfers	December 31 2010
Non-Depreciable Assets					
Land	$ 378,965	$ 2,416	$ -	$ 6,705	$ 388,086
Permanent easements	285,573	-	-	42,184	327,757
Capital projects in progress					
Sound Transit	372,465	495,054	(2,658)	(191,483)	673,378
Other governments	18,903	25,581	(6,994)	-	37,490
Total Non-Depreciable Assets	**1,055,906**	**523,051**	**(9,652)**	**(142,594)**	**1,426,711**
Depreciable Assets					
Transit facilities, rail and heavy equipment	2,416,424	237	-	93,041	2,509,702
Access rights	496,503	-	-	3,141	499,644
Buildings and leasehold improvements	25,093	238	-	1,138	26,469
Revenue vehicles	454,193	-	-	44,189	498,382
Furniture, equipment and vehicles	21,245	126	-	1,085	22,456
Equipment under capital lease	230	-	(230)	-	-
Total Depreciable Assets	**3,413,688**	**601**	**(230)**	**142,594**	**3,556,653**
Accumulated Depreciation					
Transit facilities and heavy equipment	(103,487)	(52,596)	-	-	(156,083)
Access rights	(51,250)	(26,810)	-	-	(78,060)
Buildings and leasehold improvements	(8,920)	(949)	-	-	(9,869)
Revenue vehicles	(92,117)	(20,248)	-	-	(112,365)
Furniture, equipment, and vehicles	(12,935)	(3,551)	-	-	(16,486)
Equipment under capital lease	(201)	(29)	230	-	-
Total Accumulated Depreciation	**(268,910)**	**(104,183)**	**230**	**-**	**(372,863)**
	3,144,778	**(103,582)**	**-**	**142,594**	**3,183,790**
Total Capital Assets, Net	**$ 4,200,684**	**$ 419,469**	**$ (9,652)**	**$ -**	**$ 4,610,501**

(in thousands)	December 31 2008	Additions	Disposals Retirements	Transfers	December 31 2009
Non-Depreciable Assets					
Land	$ 360,182	$ -	$ -	$ 18,783	$ 378,965
Permanent easements	282,171	-	-	3,402	285,573
Capital projects in progress					
Sound Transit	2,414,554	379,210	(33,417)	(2,387,882)	372,465
Other governments	16,816	18,658	(16,571)	-	18,903
Total Non-Depreciable Assets	**3,073,723**	**397,868**	**(49,988)**	**(2,365,697)**	**1,055,906**
Depreciable Assets					
Transit facilities, rail and heavy equipment	418,120	18	-	1,998,286	2,416,424
Access rights	350,136	158	-	146,209	496,503
Buildings and leasehold improvements	23,344	-	-	1,749	25,093
Revenue vehicles	243,861	-	(2,785)	213,117	454,193
Furniture, equipment and vehicles	15,461	966	(1,518)	6,336	21,245
Equipment under capital lease	940	-	(710)	-	230
Total Depreciable Assets	**1,051,862**	**1,142**	**(5,013)**	**2,365,697**	**3,413,688**
Accumulated Depreciation					
Transit facilities and heavy equipment	(73,116)	(30,371)	-	-	(103,487)
Access rights	(34,471)	(16,779)	-	-	(51,250)
Buildings and leasehold improvements	(8,124)	(796)	-	-	(8,920)
Revenue vehicles	(79,648)	(15,254)	2,785	-	(92,117)
Furniture, equipment, and vehicles	(12,089)	(2,350)	1,504	-	(12,935)
Equipment under capital lease	(757)	(154)	710	-	(201)
Total Accumulated Depreciation	**(208,205)**	**(65,704)**	**4,999**	**-**	**(268,910)**
	843,657	**(64,562)**	**(14)**	**2,365,697**	**3,144,778**
Total Capital Assets, Net	**$ 3,917,380**	**$ 333,306**	**$ (50,002)**	**$ -**	**$ 4,200,684**

During 2010, Sound Transit capitalized $23.6 million of interest costs ($62.3 million in 2009), representing interest cost incurred in respect of Sound Transit's capital program for the year, net of premium, discounts and bond issue costs, on its outstanding bonds (see note 8).

6. CAPITAL AND OPERATING LEASES

Capital lease obligations comprise the following:

(in thousands)	2010	2009
Lease/leaseback	$ 63,308	$ 62,464
Copier leases	-	32
	63,308	62,496
Less current portion*	-	(32)
	$ 63,308	**$ 62,464**

* *Current Portion included in the other claims and short-term obligations.*

Lease/Leaseback – On May 31, 2001, Sound Transit entered into a transaction to lease 22 rail passenger cab and coach cars and 5 locomotives (the headlease) to an investor and simultaneously subleased the vehicles back (the sublease). Under these transactions, Sound Transit maintains the right to continued use and control of the assets through the end of the leases and is required to insure and maintain the assets. The headlease and sublease have been recorded as capital leases for accounting purposes.

The vehicles had a fair market value of $61.3 million with a book value of $37.7 million at closing. Sound Transit received a prepayment equivalent to the net present value of the headlease obligations totaling $61.3 million. From those proceeds, $50.4 million was deposited with AIG-FP Special Finance Ltd. to partially meet Sound Transit's obligations under the sublease payments. In addition, $5.7 million was deposited with AIG Matched Funding Corp. and invested in securities issued or guaranteed by the United States government to meet the remaining obligations under the sublease. The remaining $4.9 million (net of closing costs of $363 thousand) was retained by Sound Transit and recorded as non-operating revenues during the year ended December 31, 2001.

The net present value of the future sublease payments has been recorded as a long term capital lease obligation. The underlying investments have been structured to meet all future obligations under the sublease when due and, as such, have been recorded to equal the sublease obligations on the accompanying balance sheet.

The lease documentation established minimum credit levels by AIG for the equity and debt defeasance accounts. At the time these transactions closed, AIG was rated "AAA" by S&P and "Aaa" by Moody's. However, starting in March 2005, AIG suffered a series of credit rating downgrades to reach a level of "A-" by S&P and "A3" by Moody's by end of year 2009. As a result of these rating downgrades under the lease transaction Sound Transit is required to replace AIG for its undertaking agreements and credit enhancements provision in the transaction and AIG is required to post collateral for the debt defeasance accounts. As of year-end 2010, the defeasance accounts were unrated as they were no longer invested in marketable securities.

Sound Transit negotiated the terms of an agreement with the transaction participants on the requirements to replace the debt defeasance, letter of credits and payment undertaker as required under the transaction. This draft terms provides for Sound Transit to potentially provide additional collateral in a securities custodial account for the benefit of the equity investor to satisfy Sound Transit's obligation under the Participation Agreement related to AIG equity defeasance accounts and credit enhancement. The transaction participants and Sound Transit have agreed to postpone the date for replacement of the debt defeasance, letter of credits and payment undertaker as required under the transaction in order to explore alternative arrangements and possible legislative solutions. Sound Transit has received confirmation from transaction participants that no default conditions exist under the agreements as of year-end 2010. Under its agreements with the transaction participants, Sound Transit may request successive three-month extensions of the date for replacement of the debt defeasance, letter of credits and payment undertaker. If the investor does not consent to such an extension, or if an event of default occurs in the upcoming year, the investor could demand a termination payment from Sound Transit of approximately $16.0 million.

Net changes in the sublease are shown in the following table:

(in thousands)	2010	2009
Net sublease, January 1	$62,464	$61,617
Accrued interest	4,675	4,612
Less payment	(3,831)	(3,765)
Net sublease, December 31	**$63,308**	**$62,464**

Amtrak Lease/Sublease – In September 2000, Sound Transit entered into a 40 year agreement to lease its locomotives, passenger coaches and cab cars (rolling stock) to the National Railroad Passenger Corporation (Amtrak) for $1. Under the agreement, Amtrak is obligated to repair, maintain and service the rolling stock at Amtrak's maintenance facility in return for payment by Sound Transit. By separate agreement, Sound Transit assigned to Amtrak its commuter rail operating agreement, which it had entered into with the BNSF Railway Company (BNSF) in May 2000 to provide commuter rail service. In order to give BNSF possession and use of the rolling stock for purposes of providing commuter rail service on Amtrak's behalf for Sound Transit, Amtrak entered into a 40 year sublease of the rolling stock to BNSF for a nominal rental payment of $1.

Under the legal structure of these transactions and pursuant to a Department of Revenue ruling, the equipment is exempted from Washington State sales and use taxes; Sound Transit and Amtrak have agreed by a Memorandum of Understanding to use funds that would otherwise be payable for these taxes for projects that mutually benefit Pacific Northwest intercity rail passenger service. Sound Transit maintains title and continuing control of the assets through the end of the lease, upon which the assets will be returned to Sound Transit.

Operating Rentals – Sound Transit has entered into leases of ground, office space, parking, land, storage at various locations, as well as equipment leases under non-cancelable operating leases in excess of one year with lease terms expiring between 2010 and 2015, with some leases containing options to renew for one year beyond the original lease term. Significant lease arrangements include office space and parking adjacent to Union Station. In 2009, Sound Transit entered into two new 10-year lease agreements for space adjacent to Union Station and extended the existing adjacent office space lease for an additional 5 years. Minimum lease payments through 2015 are as follows (in thousands):

2011	$ 3,013
2012	3,582
2013	3,674
2014	3,697
2015	3,623
	$ 17,589

Total rental expenses for 2010, which include non-cancelable leases as well as other month to month rentals, were $3.7 million, of which $391 thousand was for capital projects in progress. Total expenses for 2009 were $2.9 million, of which $506 thousand was for capital projects in progress.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	2010	2009
Accounts payable	$37,187	$24,473
Accrued liabilities	41,424	30,502
Due to other governments	46,778	35,569
Accrued salaries, wages, and benefits	3,175	2,683
Retainage payable	3,220	1,673
	$131,784	$94,900

8. LONG-TERM DEBT

Long-term debt consists of the following:

	2010 Beginning Balance	Additions	Reductions	2010 Ending Balance	Amounts Due within One Year
Bonds Payable:					
Series 1999 Bonds, at par	$ 331,855	$ -	$ (5,065)	$ 326,790	$ 5,320
Series 2005A Bonds, at par	397,815	-	-	397,815	5,810
Series 2007A Bonds, at par	420,445	-	(3,000)	417,445	7,335
Series 2009P-1 Bonds, at par	23,155	-	-	23,155	-
Series 2009P-2T Bonds, at par	76,845	-	-	76,845	-
Series 2009S-2T Bonds, at par	300,000	-	-	300,000	-
	1,550,115	-	(8,065)	1,542,050	18,465
Plus unamortized premium	34,792	-	(2,688)	32,104	-
Less unamortized discount	(5,594)	-	378	(5,216)	-
Total bonds payable	1,579,313	-	(10,375)	1,568,938	18,465
Total Long-Term Debt	**$ 1,579,313**	**$ —**	**$ (10,375)**	**$ 1,568,938**	**$ 18,465**

	2009 Beginning Balance	Additions	Reductions	2009 Ending Balance	Amounts Due within One Year
Bonds Payable:					
Series 1999 Bonds, at par	$ 336,665	$ -	$ (4,810)	$ 331,855	$ 5,065
Series 2005A Bonds, at par	422,815	-	(25,000)	397,815	-
Series 2007A Bonds, at par	435,445	-	(15,000)	420,445	3,000
Series 2009P-1 Bonds, at par	-	23,155	-	23,155	-
Series 2009P-2T Bonds, at par	-	76,845	-	76,845	-
Series 2009S-2T Bonds, at par	-	300,000	-	300,000	-
	1,194,925	400,000	(44,810)	1,550,115	8,065
Plus unamortized premium	34,908	2,498	(2,614)	34,792	-
Less unamortized discount	(5,971)	-	377	(5,594)	-
Total bonds payable	1,223,862	402,498	(47,047)	1,579,313	8,065
Total Long-Term Debt	**$ 1,223,862**	**$ 402,498**	**$ (47,047)**	**$ 1,579,313**	**$ 8,065**

In the ordinary course of financing its activities, Sound Transit issues debt as shown in the tables below. There are currently two categories of debt: Prior Bonds and Parity Bonds. Prior Bonds have first claim upon the local option taxes. Parity Bonds are subordinate to the Prior Bonds, but they have the same priority of claim upon the Sales and Use and Rental Car Taxes among each Parity Bond issue. The following tables set forward average and effective coupon rates, rating agency information, principal payment commencement, fair value, amounts currently restricted for debt service and debt requirements to maturity.

Prior Bonds – The Prior Bonds comprise the 1999, 2009P-1 and 2009P-2T issues. These bonds are payable in February and August of each year and are secured by Sales and Use Tax, Motor Vehicle Excise Tax and Rental Car Tax.

Parity Bonds – The Parity Bonds comprise the 2005A, 2007A and 2009S-2T issues. These bonds are payable in May and November each year and are secured by Sales and Use Tax and Rental Car Tax. On September 29, 2009, $25 million of the 2005A bonds were defeased with proceeds from the 2009P-1 bonds.

Sound Transit is required to maintain certain minimum deposits as defined in the respective bond resolution for each bond issue to meet debt service requirements.

Prior Bonds

(in millions)	Issue Date	Average Rate Coupon	Average Rate Effective	Ratings Moody's	Ratings S&P	Principal Payment Commencement	Fair Value* 2010	Fair Value* 2009	Princpal and Interest Restricted 2010	Princpal and Interest Restricted 2009
Series 1999	Dec 1, 1998	4.88	5.03	Aa1	AAA	Feb 1, 2006	$ 337.50	$ 346.40	$12.00	$11.90
Series 2009P-1	Sept 29, 2009	4.31	2.52	Aa1	AAA	Feb 1, 2015	$ 25.70	$ 25.60	$ 0.40	$ 0.30
Series 2009P-2T	Sept 29, 2009	5.01	3.31**	Aa1	AAA	Feb 1, 2020	$ 76.90	$ 74.00	$ 1.60	$ 1.00

** Estimated using quoted market prices*
*** Effective rate reduced due to 35% subsidy provided by US Government for Build America Bonds*

Parity Bonds

(in millions)	Issue Date	Average Rate Coupon	Average Rate Effective	Ratings Moody's	Ratings S&P	Principal Payment Commencement	Fair Value* 2010	Fair Value* 2009	Principal and Interest Restricted 2010	Principal and Interest Restricted 2009
Series 2005A	March 31, 2005	4.95	4.60	Aa2	AAA	Nov 1, 2011	$410.70	$421.90	$9.10	$3.30
Series 2007A	Dec 18, 2007	4.99	4.76	Aa2	AAA	Nov 1, 2008	$395.60	$423.70	$10.80	$6.40
Series 2009S-2T	Sept 29, 2009	5.49	3.62**	Aa2	AAA	Nov 1, 2029	$299.70	$287.40	$2.70	$4.20

** Estimated using quoted market prices*
*** Effective rate reduced due to 35% subsidy provided by US Government for Build America Bonds*

In addition, Sound Transit is required to maintain a common debt service reserve account for all Prior Bonds and series specific debt service reserve accounts for the Parity Bonds. As of December 31, 2010, the common debt service reserve account for Prior bonds comprise a surety policy in the amount of $31.7 million purchased in 1999 and a $7.9 million cash reserve funded at the time the 2009P bonds were issued. For the Parity Bonds, a cash reserve was established in 2005 for the 2005A bonds. The required balance for the Parity debt service reserve account was $41.1 million at the end of 2010.

Under the bond covenants, Sound Transit is required to value at market the investments held in the both debt service reserve accounts annually and any deficiency be made up within six months after the date of the valuation. No reserve account was required to be established for the 2007A and 2009S-2T series bonds. Reserve account proceeds are primarily invested in AAA rated Agency and General Obligation bonds.

Proceeds from all bond issues except for the 2009P-1 are used for funding Agency capital construction projects.

Year Ending December 31, 2010	Principal (in thousands)	Interest (in thousands)	Total (in thousands)
2011	$ 18,465	$ 77,791	$ 96,256
2012	19,195	76,948	96,143
2013	20,135	76,006	96,141
2014	19,395	75,036	94,431
2015	24,475	73,935	98,410
2016 – 2020	173,820	349,470	523,290
2021 – 2025	276,585	291,404	567,989
2026 – 2030	314,330	219,026	533,356
2031 – 2035	340,935	143,307	484,242
2036 – 2039	334,715	46,497	381,212
	$1,542,050	$1,429,420	$2,971,470

The 2009P-1 issue was for the purpose of refunding a portion of the 2005A bonds. The partial defeasance of the 2005A Series bonds decreased aggregate debt service payments by $3.6 million resulting in a net present value savings to Sound Transit in the amount of $2.5 million.

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorizes state and local governments to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax exempt municipal bonds. The issuers receive a direct federal subsidy payment for a portion of their borrowing costs on BABs equal to 35% of the total coupon interest paid to investors. The direct federal subsidy once earned is considered a non-exchange transaction separate from the interest payments made by Sound Transit and is recorded in other non-operating revenue when Sound Transit makes its interest payment. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

9. OTHER LONG-TERM OBLIGATIONS

Other long-term obligations include provisions for asset retirement obligations, uninsured losses related to Sound Transit's risk management program and employee compensated absences as follows:

(in thousands)	2010 Beginning Balance	Additions and accretion	Reductions	2010 Ending Balance	Amounts due within One Year
Asset Retirement Obligations					
Sounder station platforms	$ 1,001	$ 50	$ -	$ 1,051	$ -
Tacoma Link surface rail	1,449	72	-	1,521	-
Total asset retirement obligations	**2,450**	**122**	**-**	**2,572**	**-**
Uninsured Losses					
Owner Controlled Insurance Program	4,627	(222)	(572)	3,833	869
Transit operations	1,208	(227)	-	981	285
Total uninsured losses	**5,835**	**(449)**	**(572)**	**4,814**	**1,154**
Compensated Absences	4,106	4,295	(3,908)	4,493	1,626
Total other long-term obligations	**$ 12,391**	**$ 3,968**	**$ (4,480)**	**$ 11,879**	**$ 2,780**

(in thousands)	2009 Beginning Balance	Additions and accretion	Reductions	2009 Beginning Balance	Amounts due within One Year
Asset Retirement Obligations					
Sounder station platforms	$ 953	$ 48	$ -	$ 1,001	$ -
Tacoma Link surface rail	1,380	69	-	1,449	-
Total asset retirement obligations	**2,333**	**117**	**-**	**2,450**	**-**
Uninsured Losses					
Owner Controlled Insurance Program	8,522	(3,093)	(802)	4,627	1,030
Transit operations	1,194	183	(169)	1,208	385
Total uninsured losses	**9,716**	**(2,910)**	**(971)**	**5,835**	**1,415**
Compensated Absences	3,444	3,843	(3,181)	4,106	1,324
Total other long-term obligations	**$ 15,493**	**$ 1,050**	**$ (4,152)**	**$ 12,391**	**$ 2,739**

Asset Retirement Obligations – In the course of entering into agreements with other governments and rail providers to construct Sound Transit's capital assets used in providing transportation services, certain of those agreements contain clauses that impose a legal burden on Sound Transit to remove all or a portion of those constructed assets at the termination of those agreements. The FASB Codification requires that these costs and related obligations be recognized where they exist.

Risk Management – In the ordinary course of planning, building, and operating its regional transit systems and services to improve mobility for the Central Puget Sound, which includes construction projects and agency and rail operations, Sound Transit is exposed to various types of risks and exposures of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to persons; and natural disasters. Sound Transit has established a comprehensive risk management and insurance program. For its agency and railroad operation, a commercial insurance program has been put in place that provides coverage for all property, primary and excess liability, commercial auto liability, premises pollution liability, public officials & employment practices liability, crime & fidelity, and fiduciary liability to provide Sound Transit with the appropriate protections for these various types of risks and exposures.

For ST Express bus operations, under Sound Transit's interagency agreements, insurance coverage is provided by its bus partner agencies, which is included in the pro-rata transit operations cost rate that is established by Sound Transit and its bus partner agencies. However under its interagency agreement for ST Express Bus Service Operations and Maintenance in Pierce County, Sound Transit reimburses Pierce Transit for the costs of all individual claims paid up to $1 million per occurrence for all liability claims generated from ST Regional Express Bus service through December 31, 2009. In 2010, Sound Transit entered into a new operations and maintenance agreement with Pierce Transit that transfers this risk and general liability claim responsibility back to Pierce Transit, and establishes a pro-rata transit operations cost rate structure similar to Sound Transit's operations and maintenance agreements with King County Metro and Community Transit.

Sound Transit has utilized two Owner-Controlled Insurance Programs (OCIP) for its larger capital development projects to address general liability claims by third-party injuries and/or property damage related to project construction activities carried out by Sound Transit's third-party contractors. Its first OCIP program was secured in 2001, primarily for construction of the Central Link light rail segment and subsequently amended to include the Airport Link light rail segment and provided coverage from January 1, 2001 through December 31, 2009, with three years of completed operations coverage. The only remaining insurance policy that has not expired is the professional liability and contractor's pollution policy, which provides coverage through December 31, 2016 with an additional three-year reporting period extending to December 31, 2019. This insurance policy was extended in order to provide insurance coverage for the final design of the University Link light rail projects.

A second OCIP program was procured in October 2008 for the University Link Light rail segment. The funding of the premium for this OCIP was structured with initial premium payments of $6.8 million in 2008 followed by premium payments in 2009 and 2010 of $8.1 million and $3.9 million respectively, with a coverage period provided from October 20, 2008 through September 30, 2016. The University Link OCIP insurance coverage includes: primary commercial general liability, excess commercial general liability, builders risk, and contractors pollution liability policies.

On each of its commercial insurance policies, Sound Transit is responsible for either a specific deductible or a self-insured retention. Most of these insurance policies are written either on a per occurrence basis or on a claims-made basis. For its Initial Segment Light Rail OCIP general liability policy, Sound Transit procured a deductible liability protection policy as collateral to supplement the deductible (i.e., Sound Transit's self-insured retention) responsibility with the comprehensive general liability (CGL) insurer for the probable maximum claims exposure. This collateral account was established at the inception of the policy and estimated at $6.5 million, which Sound Transit deposited with the CGL insurer in an interest-bearing loss fund account. Annually, Sound Transit engages an actuary to prepare an actuarial report in order to estimate its total claim exposure under all of these risk management and insurance programs. The claim amounts estimated to be paid within the next year are included as an accrual in other current liabilities of the financial statements.

Compensated Balances – Amounts estimated to be paid within the next year are included in accrued salaries, wages and benefits.

10. RESTRICTED NET ASSETS

Restricted net assets consist of the following:

(in thousands)	2010	2009
Debt service	$ 70,557	$ 57,691
Contractual arrangements	18,748	18,285
Deductible liability protection policy	1,794	2,287
	$ 91,099	**$ 78,263**

11. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust (401(a) Plan) to its employees. Prior to December 31, 1999, employees had a choice of participating in either the 401(a) Plan or in the Washington Public Employees' Retirement System (PERS). In 1999, the Washington State Legislature amended the laws governing PERS requiring employers to either terminate their participation in PERS or permit all new employees to participate in PERS regardless of their simultaneous participation in a 401(a) plan. Effective December 31, 1999, Sound Transit terminated its status as a PERS employer with regard to all employees hired after that date. Individuals who were active members at that date were eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. At December 31, 2010, 2009 and 2008, there was one remaining employee participating in PERS.

A summary of the 401(a) Plan is as follows:

401(a) Plan – A defined contribution money purchase plan and trust was established for Sound Transit in 1994 with the adoption of Board Resolution No. 32. This was amended by Resolution No. 100 in 1997 to recognize the contribution made to Sound Transit by its employees. The ICMA Retirement Corporation administers the Central Puget Sound Regional Transit Authority Pension Plan and serves as the plan's trustee. This plan is a fixed employer system, and membership in the system includes all full time Sound Transit employees and members of the Sound Transit Board eligible for compensation. The vesting schedule of the plan is 20% immediately upon employment, 40% after one year of service, 60% after two years, 80% after three years and 100% after four years. Employees are responsible for directing the investment of their contributions and Sound Transit's contributions.

Any eligible employee who was employed on the effective date of this plan was eligible to participate in the plan. Any other eligible employee shall be eligible to participate on the first day of employment.

Sound Transit's actual contribution rates, which were the required contribution rates, are expressed as a percentage of covered payrolls. The amount of covered payroll during 2010 and 2009 was $37.4 million and $33.1 million, respectively, and total payroll was $38.0 million and $33.7 million. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2010, 2009, and 2008 are as follows:

	Contribution Rate			Contributions (in thousands)		
	2010	2009	2008	2010	2009	2008
Employer	12%	12%	12%	$ 4,490	$ 3,972	$ 3,437
Employee	10%	10%	10%	3,742	3,310	2,864
Total	**22%**	**22%**	**22%**	**$ 8,232**	**$ 7,282**	**$ 6,301**

12. COMMITMENTS AND CONTINGENCIES

Operations and Maintenance Agreements – In May, 2000, Sound Transit entered into a 40-year agreement with BNSF for the operation of commuter trains by BNSF between Seattle and Tacoma and the compensation paid to BNSF for train crews, maintenance of way and other expenses incurred in the operation of the Sounder service. The compensation is based on the actual costs of crew, dispatch and management, as well as costs for maintenance of way plus performance incentives.

In September 2000, Sound Transit entered into an agreement with Amtrak for the operations and maintenance of its Sounder commuter rail rolling stock, expiring December 31, 2009. A memorandum of agreement was entered into for the continuance of operations from January 2010 to February 2010 under the original contract terms. A new five-year agreement was entered into effective March 1, 2010 with one two-year option for renewal at Sound Transit's consent and three one-year renewal options at the mutual consent of both parties. Under the agreement, Sound Transit pays a flat monthly fixed price dependent upon the number of one way trips and train sets in operation for a baseline set of operating assumptions. Sound Transit pays a negotiated rate for additional service above this baseline operating plan. See related agreements described in note 6.

Between June 2000 and February 2006 the cities of Seattle, Tukwila and SeaTac granted Sound Transit light rail access rights to operate its light rail service in their municipalities in return for Sound Transit constructing public right of way improvements in each of these cities light rail transit ways. Costs included in the public right of way improvements necessary to operate light rail service include the costs to acquire real property and relocate existing residents and businesses.

In June 2002, Sound Transit entered into an agreement with King County to share Downtown Seattle Transit Tunnel (DSTT) maintenance and operation costs in exchange for the right to use the DSTT for light rail operations. Sound Transit's obligations include transfer of betterments, reimbursement of costs, and payment of a share of county debt service owed for the original tunnel construction. Sound Transit is also committed under this agreement to share costs for future capital repairs or replacements as they arise. Compensation is calculated as reimbursement of certain county costs based on fixed percentages related to Sound Transit's share of usage of the DSTT. The DSTT agreement is in effect for five years after the opening of light rail operations in 2009 at which point Sound Transit will either be required to purchase the DSTT or Sound Transit and King County will enter into another operating agreement for joint use.

In June 2003, Sound Transit entered into a Central Link Light Rail system operation and maintenance agreement with King County. Compensation for this service is based on reimbursement for county expenses based on a fixed amount for a baseline level of service, with additional costs billed for service changes directed by Sound Transit. This agreement was revised effective December 21, 2009 for a term of five years.

In December 2003, Sound Transit entered into an agreement with BNSF for the operation of the commuter trains by BNSF between Seattle and Everett and the compensation paid to BNSF for train crews, maintenance of way and other expenses incurred in the operation of the Sounder service. The compensation is structured as an hourly rate per train mile operated for a baseline service plan, with inflation adjusters plus performance incentives. The term of the agreement is for 12 years with an option of five additional years that must be agreed to by both parties, for a maximum term of 17 years. In addition, a first amendment was executed to the existing long term agreement for commuter service from Seattle to Tacoma, covering service for the Lakewood-to-Tacoma corridor, provided Sound Transit eventually operates in the corridor.

In December 2009, Sound Transit's five-year agreements expired with Community Transit, King County Department of Transportation and Pierce Transit (purchased transportation providers) for the operation of its ST Express bus service within Sound Transit's service area. New service agreements were entered into with King County Department of Transportation and Pierce Transit effective January 1, 2010 and expiring December 31, 2012 with two 1-year renewal options at the mutual consent of both parties. The Community Transit 2004 service agreement was extended to March 31, 2010, following which a new service agreement was entered into effective April 1, 2010 and expiring March 31, 2012, with two 1-year renewal options at the mutual consent of both parties. Service is compensated based upon a fixed fee agreed to annually, with certain items subject to variable pricing, such as fuel and special services.

In October 2010, Sound Transit entered into a twenty-year agreement with the Washington State Fair Association to use one of its parking lots for commuter rail passengers accessing Puyallup Station. The amount paid to acquire the right was equal to costs incurred to improve the existing parking lot to be able to accommodate commuter rail passengers.

Agreements with BNSF for Sounder Commuter Rail Service Easements in the Everett-to-Seattle and Seattle-to-Lakewood Corridors – In December 2003, Sound Transit entered into a number of agreements with BNSF for, among other things, the purchase of four perpetual easements between 2003 and 2007, each in exchange for a payment of $50 million for commuter rail service between Everett and Seattle, the purchase of railroad right-of-way between Nisqually and Tacoma for service and station improvements, terms for joint use of the railroad right-of-way and the purchase of operation services in each corridor. Each easement allows the addition by Sound Transit of one round trip commuter train service.

The Joint Use Agreement for the Everett-to-Seattle corridor provides the mechanism for determining the cost to Sound Transit for the maintenance-of-way and rehabilitation activities on the corridor.

The Joint Use Agreement for the Lakewood-to-Tacoma corridor sets forth the cost to BNSF for the maintenance of way and rehabilitation activities on the corridor and Sound Transit and BNSF's responsibilities during the interim period before Sound Transit starts operating on each portion of the corridor. However, as Sound Transit incrementally commences construction of the line, Sound Transit will be responsible for maintenance activities on those sections.

In May 2000, Sound Transit entered into a construction agreement with BNSF in which track and signal improvements necessary to operate its service in the Seattle-to-Tacoma corridor would be constructed in exchange for the right to operate commuter rail service for 40 years. In the Everett-to-Seattle corridor operating rights were acquired through direct acquisition of easements and include Sound Transit's direct and indirect costs related to planning and design, environmental management and permitting for that corridor.

In July 2010, Sound Transit entered into an agreement with BNSF to acquire four perpetual easements on its Seattle-to-Tacoma corridor. The easements will be acquired between 2010 and 2013 for total compensation of $185.0 million. Each easement allows the operation of one round trip commuter train service no earlier than the later of either the agreed-upon effective operational date of each easement or 24 months after Sound Transit has obtained required approvals and permits to allow BNSF to construct related improvements necessary for the operation of each easement. The cost of each easement is listed in the table in the following column.

Easement	Closing Date	Amount (in millions)
1	July 2010	$ 41.0
2	January 2011	44.0
3	July 2012	52.0
4	July 2013	48.0
		$ 185.0

Amended and Restated Agreement for Regional Fare Coordination System – In April 2009, Sound Transit entered into an amended agreement establishing the design, implementation, operation and maintenance of the Regional Fare Coordination System (RFCS) among seven participating agencies that simplifies and establishes a common, noncash fare system through their service areas. The original agreement in April 2003, established the respective roles and responsibilities of the Agencies in the Development and Operating Phases of the RFCS. This amended agreement further defines and establishes a framework for the Operating Phase of the RFCS, which launched on April 1, 2009. The participating agencies have committed to utilizing the RFCS for a minimum of 10 years and funding a proportionate share of regionally shared costs.

The following table represents the amounts included in these financial statements of Sound Transit's participation:

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,492,218	$ 2,112,276
Accounts Receivable	6,431,590	1,429,277
Total Assets	**$ 9,923,808**	**$ 3,541,553**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 7,877,942	$ 2,697,812
Deferred Receipts	2,045,866	843,741
Total Liabilities	**$ 9,923,808**	**$ 3,541,553**
Total Operating Revenues	**$ 24,407,982**	**$ 3,219,788**
Total Expenses	**$ 466,925**	**$ 60,550**

Governmental Agreements – In its ordinary course of planning design and construction of its projects, Sound Transit enters into agreements with other governments. These agreements establish the working relationships with the other governmental entities and may obligate Sound Transit to pay for services over the lifecycle of a construction project, and often include provisions to transfer property or property rights upon completion of construction. Significant governmental agreements include:

Port of Seattle Construction Services Agreement

Entered into on April 17, 2006, this agreement provides payment terms and assignments regarding which entity serves as contract administrator, and which serves as construction manager, for the various contract packages making up the Airport Link project. The agreement also stipulates operating terms applicable after construction. The agreement will not expire as long as Sound Transit operates rail transit systems on the segment.

University of Washington Master Implementation Agreement

Entered into on July 2, 2007, this agreement allows Sound Transit entry to the University's Seattle Campus to construct Link light rail; establishes compensation amounts for certain staffing costs, parking mitigation in the amount of $15.2 million, which was paid in 2007, and consideration for easements granted by the University in the amount of $20.0 million, which was paid in May 2008. Both parties anticipate additional agreement(s) providing terms for the operation of Link light rail on University property.

WSDOT Funding and Cooperative agreement

Entered into on November 2008, this agreement establishes the project scope, management and construction of certain improvements within the Lakewood track improvements and Point Defiance Bypass project. WSDOT will reimburse Sound Transit for actual costs incurred up to a maximum amount of $9.5 million.

WSDOT Construction Administration Agreement

Entered into on March 16, 2009, this agreement establishes the terms of construction, construction engineering, contract administration, support and payments for the WSDOT to construct the I-5, Mountlake Terrace Freeway Station. Sound Transit's estimated expense for this project is $22.6 million.

City of Seattle Construction Services Agreement

Entered into on August 12, 2009, this agreement covers areas including quality assurance, inspections, emergency services, traffic signal design, and utility work by city crews during Sound Transit's development of the University Link Project up to $6.0 million. The agreement also commits Sound Transit to accomplish certain improvements as requested by the City, at the City's expense.

City of Seattle Funding and Cooperative Agreement for the implementation of the First Hill Streetcar Connector Project

Entered into on November 11, 2009, this agreement establishes the minimum scope of work for the project and funding obligations for Sound Transit. In October 2010, Sound Transit agreed to fully fund $132.8 million of the costs necessary to design, construct and operate the First Hill Streetcar that were established in the November 2009 funding and cooperative agreement. The City will own the First Hill Streetcar facilities and vehicles, while Sound Transit will assume operation of the Streetcar service if the City and King County Metro fail to reach an initial operating agreement or after the initial five years of operation by King County Metro.

WSDOT Umbrella Agreement for R8A Project and East Link Light Rail

On August 26, 2010, Sound Transit was authorized to enter into an umbrella agreement with WSDOT to implement the remainder of the R8A project that consists of the I-90 Two-Way Transit and HOV Operations Project Stages 2 and 3 and the use of the I-90 center lanes for construction and operation of East Link. Sound Transit has agreed to fund Stages 2 and 3 of the I-90 Two Way Transit and HOV projects for $153.2 million in exchange for a temporary construction airspace lease for the construction of light rail along the I-90 center lanes as well as a 40 year airspace lease with an option to renew for 35 years for the operation of light rail in the center lanes of I-90.

Land Bank Agreement – Sound Transit entered into an agreement called the Land Bank Agreement with WSDOT in July 2000 and as restated in December 2003, the purpose of which is to establish a framework within which WSDOT can from time to time convey portions of WSDOT property to Sound Transit and to make other portions of other WSDOT property available for non-highway use by Sound Transit in consideration for Sound Transit's funding of highway purpose improvements. In August 2010, as part of the Umbrella Agreement with WSDOT to complete the R8A Project, WSDOT has agreed to grant Sound Transit land bank credits for all of its funding on the R8A projects as well as to extend the land bank agreement to 2080 in which Sound Transit can continue to earn land bank credits for projects involving highway improvements and use credits on projects that are located within the public highway right-of-way.

Sound Transit has light rail guideways located on WSDOT property governed under multiple forty-year airspace leases issued under the land bank agreement. Should Sound Transit and WSDOT not enter into a new agreement at the end of the leases, property ownership transfers to WSDOT. At December 31, 2010, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was $133.6 million.

This value is not recorded in the financial statements. The following table provides information on additions to and uses of credits accruing to the benefit of Sound Transit in 2010 and 2009.

(in millions)	2010	2009
Balance in Land Bank, beginning of year	$ 133.8	$ 141.5
Credits (Draws)		
Airport Link	-	(0.1)
University Link I-5 Twin Bore Tunnel Crossing	1.8	(7.6)
East Link	(0.1)	-
D to M Street	(1.9)	-
Balance in Land Bank, end of year	**$ 133.6**	**$ 133.8**

Purchases – At December 31, 2010 and 2009, Sound Transit had outstanding construction commitments of approximately $844.2 million and $744.3 million, respectively.

Grants – Sound Transit participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2010 and 2009 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to noncompliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Claims – In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to contractual matters. Although the ultimate outcome, if any, of these matters is presently unknown, management has evaluated all claims and potential claims, and where that exposure is probable, has reflected in the accounts of Sound Transit its best estimate. At December 31, 2010, $73.7 million has been recorded in construction in progress and a corresponding liability accrued ($60.2 million at December 31, 2009); however, as these are estimates, they are subject to change.

13. SUBSEQUENT EVENT

An outstanding construction claim was settled in January 2011 for $28.5 million related to a contractor's work performed on the Central Link project.

Management has evaluated events and transactions that have occurred after December 31, 2010 through June 1, 2011, the date these financial statements were issued.

Statistical Data (unaudited)

Link Operating & Maintenance Expenses

(in thousands)	2006	2007	2008	2009*	2010
Salaries & Benefits	$ 1,184	$ 1,358	$ 1,370	$ 1,929	$ 2,836
Services & Materials	874	4,805	5,403	24,728	16,672
Utilities, Insurance, Taxes, Leases & Miscellaneous	403	491	1,524	3,079	4,421
Purchased Transportation	-	1	2	11,575	22,194
	2,461	**6,655**	**8,299**	**41,311**	**46,123**
Depreciation, Disposals & Recoveries	2,921	2,848	2,827	25,290	62,009
Indirect Expenses	443	466	540	1,877	3,278
	$ 5,825	**$ 9,969**	**$ 11,666**	**$ 68,478**	**$ 111,410**

*Central Link opened July 2009

Sounder Operating & Maintenance Expenses

(in thousands)	2006	2007	2008	2009	2010
Salaries & Benefits	$ 293	$ 306	$ 470	$ 854	$ 778
Services & Materials	11,452	12,846	17,033	20,421	18,667
Utilities, Insurance, Taxes, Leases & Miscellaneous	2,851	2,715	2,940	3,625	2,478
Purchased Transportation	6,052	6,867	8,621	6,915	7,575
	20,648	**22,734**	**29,064**	**31,815**	**29,498**
Depreciation, Disposals & Recoveries	15,204	16,653	17,560	18,941	19,757
Indirect Expenses	2,053	2,118	2,231	2,432	3,154
Total	**$ 37,905**	**$ 41,505**	**$ 48,855**	**$ 53,188**	**$ 52,409**

ST Express Operating & Maintenance Expenses

(in thousands)	2006	2007	2008	2009	2010
Salaries & Benefits	$ 337	$ 362	$ 291	$ 345	$ 457
Services & Materials	2,997	2,986	6,387	7,604	6,955
Utilities, Insurance, Taxes, Leases & Miscellaneous	953	867	1,232	1,211	1,345
Purchased Transportation	55,579	63,086	70,159	71,629	83,019
	59,866	**67,301**	**78,069**	**80,789**	**91,776**
Depreciation, Disposals & Recoveries	12,877	13,171	15,211	19,290	20,653
Indirect Expenses	3,664	3,806	4,186	4,193	4,890
	$ 76,407	**$ 84,278**	**$ 97,466**	**$ 104,272**	**$ 117,319**

Revenue by Source
(in thousands)

Year	Passenger Fares	Sales & Use Taxes	Motor Vehicle Excise Taxes	Rental Car Taxes	Grant Revenues	Investment Income	Other Revenues	Total
2006	$ 18,052	$ 259,164	$ 70,203	$ 2,427	$ 143,704	$ 37,277	$ 4,314	$ 535,140
2007	22,029	280,263	72,403	2,531	115,777	24,952	5,914	523,868
2008	26,611	265,358	68,621	2,498	175,503	23,630	11,864	574,085
2009	29,048	440,929	67,290	2,869	176,422	12,360	4,529	733,447
2010	37,589	504,101	65,788	2,409	163,827	14,122	13,225	801,061

Key Operating Performance Measures (unaudited)

Link	2006	2007	2008	2009*	2010
Total ridership	885,553	860,349	926,076	3,390,771	7,831,905
Service hours	9,979	10,060	9,708	69,902	147,255
Boardings per service hour	88.74	85.52	95.39	48.51	53.19
Cost per service hour	$291.02	$296.21	$313.83	$296.68	$302.04
Cost per boarding	$3.28	$3.46	$3.29	$6.12	$5.68

Sounder	2006	2007	2008	2009	2010
Total ridership	1,692,971	2,156,652	2,668,623	2,492,362	2,480,052
Service hours	16,095	19,279	27,006	36,010	38,518
Boardings per service hour	105.19	111.87	98.82	69.21	64.39
Cost per service hour	$1,403.80	$1,277.66	$1,151.03	$944.74	$842.72
Cost per boarding	$13.35	$11.42	$11.65	$13.65	$13.09

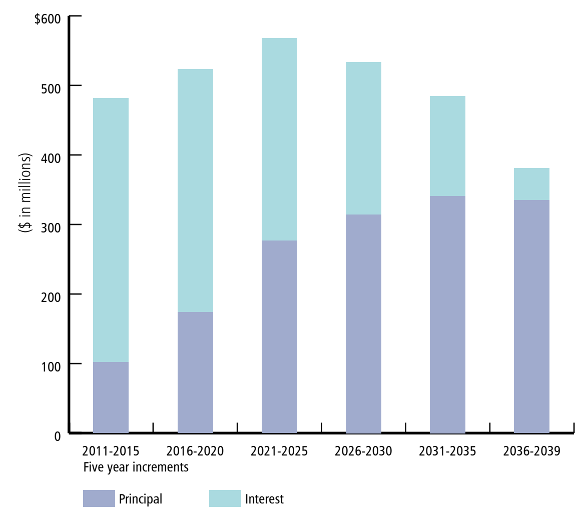
ST Express	2006	2007	2008	2009	2010
Total ridership	9,819,143	11,394,629	13,028,486	13,784,753	13,092,785
Service hours	459,939	522,602	504,709	536,225	552,860
Boardings per service hour	21.35	21.80	25.81	25.71	23.68
Cost per service hour	$137.92	$135.48	$160.80	$157.02	$172.71
Cost per boarding	$6.46	$6.21	$6.23	$6.11	$7.29

*Central Link opened July 2009
Source Data - National Transit Database
1 Service hour = 1 Revenue Vehicle Mile Hour

2010 Debt Capacity (unaudited)

(in millions)		
Assessed Valuation in 2009 for collection of taxes in 2010	$	440,558
Maximum nonvoted debt (1.5% of assessed valuation)	$	6,608
Less: Series 1999, 2005A, 2007A, 2009 Bonds and Other Long-term debt	$	1,542
Nonvoted debt capacity remaining	$	5,066
Maximum voted debt (5% of assessed valuation)	$	22,028
Less: Series 1999, 2005A & 2007A Bonds and Other Long-term debt	$	1,542
Voted debt capacity remaining	$	20,486

Debt Service Requirements to Maturity (unaudited)

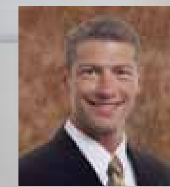


Debt Service Coverage Ratio (unaudited)

	2006	2007	2008	2009	2010
Priority Bonds	15.54x	16.64x	15.77x	23.98x	23.61x
Parity Bonds	12.71x	13.74x	4.91x	5.39x	9.16x

** Debt Service is reduced by Build America Bonds Federal subsidy payments.*

Sound Transit Board of Directors



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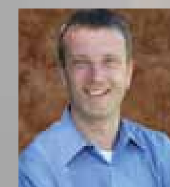

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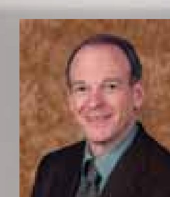

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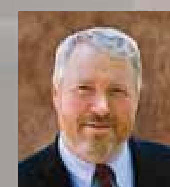

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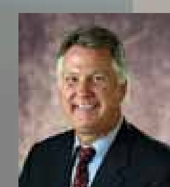

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